OPINION PIECE

By Dani Rodrik,
Ford Foundation Professor of International Political Economy, John F. Kennedy School of Government, Harvard University, United States

INDUSTRIAL POLICY, INNOVATION AND GLOBAL RULES

Industrial policy is back with a vengeance. The COVID-19 pandemic has highlighted for many countries the need to develop reliable domestic (or at least regional) supply chains for medical products. The employment shock that accompanied the lockdowns has also rendered the good-jobs challenge (i.e. employment challenge) that most countries faced even before the crisis even more acute. And the rise of China as a technological leader in many domains has pushed governments in the United States and Europe into more active industrial and innovation strategies in response. As this valuable report puts it, "a defining feature of new industrial policies is the focus on innovation, technological development and upgrading, and the role of investment in promoting it" (see Section B.2(c)).

The foundational agreements of the present world trade regime – and the World Trade Organization itself – are the product of an intellectual legacy that is increasingly inappropriate to the existing needs of the world economy. Under the narrative that prevailed throughout the 1990s and 2000s, governments' roles in directing economic activity were limited, economic prosperity was best pursued through deep economic integration, with restrictions on what governments could do behind their borders, and most large economies in the world were converging toward similar market-economy principles. None of these hypotheses looks compelling in today's world.

In a world where economic policies diverge, and health crises and technological transformations have severe implications for labour markets and hence for social peace, the global economy needs to be constructed on different principles. In particular, there must be healthy respect for national sovereignty, and the limited political capital for international cooperation must be spent on areas where the returns from establishing global regimes are truly high. As I have argued elsewhere (Rodrik, 2020), these are the areas characterized either by global public goods (such as efforts to tackle climate change or pandemics) and by "beggar-thy-neighbour" policies (such as the exercise of monopoly power or tax havens).

As this report argues, the spread of digital technologies is creating all kinds of new ways for a nation's policies to create spill-overs for other nations. Knowledge, after all, is the quintessential public good that knows no borders. It is not clear, however, whether this fact strengthens the case for more global rules. On the other side of the argument, we also have to contend with the facts that markets for technology are inherently imperfect, that these market imperfections call for more government intervention, and that the scope for disagreement among countries on which policy interventions are legitimate and desirable becomes considerably broader.

While international dialogue to sort out some of these disagreements and to ensure that governments understand the motivations and reasoning of others is always useful, there is no guarantee that such dialogue will always produce agreement on rules. And under these circumstances, we may need to resign ourselves to the reality rather than push for the impossible (or sign toothless agreements).

Existing WTO disciplines in the areas of subsidies, local content rules, TRIPS and government procurement all raise potential problems from this perspective.

Imagine that a government identifies a data-intensive activity as a source of important technological externalities for the home economy, and encourages that activity through subsidies, local content requirements or government procurement, in a manner that falls afoul of international trade rules. Should a trade partner or international organization be allowed to second-guess whether (a) these policies have valid economic justification (i.e., whether there is a plausible positive externality), and (b) the government has selected the right policy intervention in light of the administrative and political realities on the ground? My answer would be no, insofar as such policies are not true "beggar-thy-neighbour" policies. If the government has made the right choices, the policy should be allowed to stand, even if there are negative spill-overs which may affect other nations. And if the government is making a mistake, it will be that government's taxpayers and consumers who will bear the brunt of the costs.

Another example where there might be a stronger argument for global rules is the abuse of market power in international markets. Suppose a government restricts the export of an advanced technology in which it has near-monopoly power globally, and does so in order to raise prices on world markets (and not for national security reasons). This would be a clear instance of a beggar-thy-neighbour policy. International rules against such conduct – a version of global anti-trust – would be appropriate.

My point is that we cannot assume that more international spill-overs automatically implies the need for more international rules. The lesson from the post-1990s push for hyper-globalization is that international rules can overshoot. We should not repeat the mistake in an era where national sovereignty will exert stronger centrifugal pressures – for good as well as bad reasons.