Reviewed Work: Globalization and the Race to the Bottom in Developing Countries: Who Really Gets Hurt? by Nita Rudra (2008)

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As a complex and multifaceted phenomenon that shapes this modern world, Globalization raises a question of who really benefits from this phenomena, and who really gets hurt? Does globalization create a single model of social welfare policy to accommodate the needs of the market? Those questions become the main foundation of Nita Rudra's analysis in her book titled Globalization and the Race to the Bottom in the Developing Countries. In her book, Rudra challenges the argument of most globalization skeptics who argue that the bottom poor are the particular group who suffer the most from the globalization phenomena. The lack of less developed countries' (LDCs) ability who mostly consist of and rely on the big amount of poor population to compete in the global market competition is the main basis for the hypothesis of globalization skeptics. In the end, the policy of the state government will surrender to the demands of the market to get the maximum benefit from the globalization phenomenon that occurs. This could lead to "race to the bottom" (RTB), where the governments must cater to the capital interests by cutting wages and benefits to allow investors to pursue the highest rate of returns, and sacrifice adequate welfare protections for the poor.

Rudra's main argument is that the domestic institutions will be the mediator between global pressures and domestic social policy. As the aftermath, it does not affect the bottom poor citizens the most from the impact of the RTBs. It precisely hurts the middle class the most. Various kinds of policies such as government's welfare distribution are controlled and determined by certain domestic institutions, whose access is controlled by the middle class and certain political groups, have been more oriented towards the interests of the middle class rather than the interests of the bottom poor itself. To support these arguments, Rudra studies the interactions between globalization and the race to the bottom, domestic politics, and welfare strategies in the developing countries to observe the implications of the international market expansion on LDCs' welfare. Rudra analyses the vulnerability of the LDCs' welfare state policies against RTB pressures, and what the government can do if such pressures exist. She also analyses the relevancy of the domestic institutions and politics in the globalization era.

In chapter 2, Rudra shows the existence of RTB and its impacts on the domestic welfare regime of developing countries, thanks to the lack of domestic institution ability in developing countries that give rise to their vulnerability against the pressures of the international market. To prove this, Rudra analyses the effects of trade and capital flows on social security, education, and health spending, which are the three conventional mainstays of public welfare schemes. She finds that the market pressure has the most impact on the social security programs to be compromised in order to give way for a market-friendly environment. This is because social security programs have a direct influence on pushing up labor costs and worker productivity. Furthermore, she adds, the capability of labor organizations become a major factor that helps advance the race to the bottom in the social security sector. The ability of labor to negotiate on par with the capital owner and the government becomes a major factor and the author sees the lack of it in LDCs since the labor groups are less coordinated. Rudra concludes chapter 2 by re-emphasizing the role of the domestic institution as the mediator between the globalization and the group that affected especially labor market institutions. She argues that without a mobilized and coordinated labor market institution, RTBs will come up as the winner as the government will tend to cut spending on social security programs to give bigger benefits for the market.

After analyzing the social spending cutbacks, in chapter 3 she argues that despite RTB gives a major pressure to the social cutbacks, it is not directly linked to the decline of the poor in the LDCs. It is because most of the welfare schemes have been biased to accommodate and to give protection for the middle-class workers that have been excluded from the group that has a good mobilization skill to resist towards occurring changes on welfare regime. The biased policy is heavily linked to the interest of developing country government in building a strong political support base. The government expects this support base to rely on middle-class society, which consists of the country's well-organized and most powerful groups of people. By looking at the nature of policy interactions between government and labor market institutions, Rudra considers that the poor have no strong organized power to affect the country's welfare regime. Since the beginning, the welfare regime including the social spending policy on a developing country itself never gives much towards the interest of the poor.

The author provides an in-depth analysis of welfare regimes distribution among developing countries in chapter 4. Her analysis points out that even though countries reduce their social spending, it does not mean they are directing their welfare regime towards a liberal model. She comes up with this argument by identifying the logic and existence of distribution regimes patterns in the developing world. Every country also has its uniqueness in terms of the distribution regimes that rely on a complex historical configuration rather than market pressure.

The analysis also reveals three models of welfare regimes that can be found in the developing world. First, a market-friendly productive model that accommodates market development by supporting commodification of labor, high spending on education and public health to improve the quality of human resources to compete in the market. Second, the protective model which emphasizes the protection of local businesses from the onslaught of international markets, decommodification of labor, and welfare allocation for social housing and the support for public employment. Third, a dual model in which a state combine both productive and protective model under one single welfare model. The existence of the three clusters of welfare mode shows that a developing country can demonstrate a sustained capacity to formulate systematically different social policies that aim to align the economy and society. She then argues that initial development strategies become the basis of LDCs' welfare state divergence. An export-oriented developing nation will prefer the productive welfare mode, while a closed economy state will prefer the protective one.

This finding suggests that the welfare distribution regimes play an important role in aggregating interests and structuring access to the political arena. As a result, the middle-class dominance in accessing the benefit of welfare distribution raises resistance with the interest in safeguarding the benefits they have so far gained. We can see this from the extent of welfare policy that can still strongly be protected from the effect of globalization, even though the country has become more integrated into the global economy by executing a specific amount of social spending cutbacks. The argument on who really gets hurt from the effect of globalization is getting clearer seeing that none of the classic LDC welfare regime types were originally directed towards the interests of the poor. Therefore, when the pressure of globalization gets bigger which then leads to the of RTBs, this does not affect the interests of the poor themselves.

Rudra strengthens her argument by presenting several case studies in chapters 5,6 and 7. These cases illustrate the qualitative discoveries of the previous chapters by looking deeply into the occurrence and effect of RTB in developing countries. With qualitative analysis, Rudra analyses how welfare regime changes along with the pressure of globalization especially after the 1997 economic crisis. India, South Korea, and Brazil are presented as illustrations of countries, each of which represents protective, productive, and dual welfare states.

Before focusing on further analysis of the systematics of the welfare regime in India, Rudra's again illustrates that the pressure of globalization that leads to RTB on a country's welfare regime does indeed exist. It is shown in chapter 5 that although India is a protective welfare state, the government still needs to make several cutbacks on social expenditure mainly in social security, health and education sectors to impose fiscal discipline and prepare for international competition. However, it is still considered as very minimal compared to the non-protective welfare states as the globalization pressure is well moderated by a well-entrenched interest group, the government-labor relationship, and fragmented labor organization in India. It is because to response the pressure of globalization, the interest groups can provide a coordinated response to avoid trade-off between efficiency and welfare; and reinforce the interest of the better off such as protection of labor market and public employment that historically benefited the better off rather than the bottom poor. To address the pressure of globalization, the relatively better-off urban formal sectors, which only represents 10 percent of India's working populations will promote the more protective effort instead of heading towards the market-friendly productive welfare. In the end, the current welfare schemes in India will still favor a small portion of the population and the poor will also continue to be neglected.

In chapter 6 Rudra provides an

overview of changes in the welfare regime that occurred due to the pressure of globalization in a country that adheres to the productive welfare state. When compared to what happened in India, the findings obtained from analyzing South Korea as the case studies are quite interesting. The case shows that market expansion and globalization will trigger RTB. Even in a country that has a well-developed productive welfare regime and economy like South Korea, with the appearance of welfare cutbacks that are concentrated in the country's comparatively new social program. Countries such as South Korea that have historically accommodated market productive interests have also begun exploring ways to become more protective. Policies such as pension funds and health insurance illustrate that South Korea is beginning to accommodate protective interests. This certainly proves that the pressure of globalization will affect the welfare regime of a country regardless of the model. But just like India, this does not significantly change the welfare regime that has been structurally and historically applied in the country. Promoting citizens' market reliance through extensive intervention and a concentration of public resources on modification, which is the main feature of the productive welfare state, is still strongly maintained. Rudra considers this to support the initial argument that the situation will again benefit the better off.

Chapter 7 provides us with the illustration of globalization effects on the dualistic welfare regime, which pursues a mixed strategy of protective and productive social policy. The dualistic welfare regime in the case study itself is represented by Brazil. The productive social policies of Brazil are represented by emphasizing universal primary enrolment of education, while the protective social policies of Brazil can be seen from the provision of social security and labor market protection. Same with India and Korea, the effects of RTB can be found in the cutbacks of some Brazil's welfare program. However, compared to India and Korea, the Brazil Welfare regime appears to be the most dynamic, where changes and adjustments can be found in the country's long-standing welfare programs. Rudra finds that both the protective and productive component has got a significant amount of changes. Even so, Rudra still notes that several institutional elements are still intact in the Brazilian welfare regime, namely the failure in the recent advancement of education, which has not been able to develop beyond the primary level, and the welfare regime which tends to be regressive. But from the various shreds of evidence, Rudra concludes that in general Brazil's welfare model has experienced significant institutional changes which are closer to the productive model of welfare regime. Rudra adds that dual modes such as Brazil will respond more dynamically to globalization that can be seen from the magnitude of the possibility of path-breaking reform if the pressure gets bigger. But in the end, at least until this present situation, the changes that occur in Brazil's social policy will still have more influence on the middle-class group, that consists of formal-sector workers and the servants of the state. That particular middle-class group will be affected the most by RTB pressures in the reform related to social security and labor market policies that for a long time had protected their interest. The bottom poor of the population, that consists of informal workers, the unemployed, and underemployed, have historically been excluded from the access of any welfare protections in Brazil which makes them not too affected by the changes that occur.

Rudra concludes this book by re-emphasizing that globalization creates a situation where a capitalistic realm is unavoidable. As a result, nations sees that protecting their citizens from the effects of globalization can cause their defeat in international economic competition. Therefore, countries make adjustments to their social policy and welfare regime to better suit and accommodate the demand for global competitions. In the process of changing this policy, the role of the domestic institution is very central. The domestic institutions, that are controlled by middle class and certain political groups in the country, will determine how and where a country will be directed in addressing global economic pressures. From here then the question arises, whom does the adjustment of the welfare policy affect the most. From her analysis, Rudra tries to challenge the mainstream argument which states that the bottom poor is the most affected by the adjustment of the budget and social policies of a country, especially in developing countries. Rudra's discovery in this book shows that the middle class is the most affected by the pressure of globalization. This is based on the findings from various study case analyses, where historically and contextually, the social policy and welfare of developing countries are indeed made for the benefit of middle-class people with access to power and policy-making process. Meanwhile the poor have long been neglected, so when the state cuts the social budget in the RTB process with the pretext of accommodating market interests, this has little effect on the social-economic life of the bottom poor.

Although it can produce concrete arguments by presenting various evidence from the case studies analyzed, there are some criticisms about the results of this study. The first criticism is that there is no specific classification of developing countries or LDCs for the case study. If we try to classify developing countries, then a country can fall into that category if it has a low human development index (HDI) and an underdeveloped industrial base (O'sullivan & Sheffrin, 2007). In addition, the country should also lack access to health facilities, has poor infrastructure, experience high corruption, low education, and high cases of poverty. In this book, we can only find that what is categorized as LDCs are countries outside the Organization for Economic Co-operation and Development (OECD). Even though there are debates about the classification of developing countries (and placing countries outside the OECD as a method of classification is still valid until date), the author should be able to choose a more specific classification, such as using the classification of IMF's World Economic Outlook, that classifies a developing countries based on their composition of export earnings and other income from abroad, a distinction between net creditor and net debtor countries. For the net debtor countries, financial criteria based on external financing sources and experience with external debt servicing (Nielsen, 2011). Using a more specific classification, unequal comparison can be avoided in the case study. For example, in the case study that we get, the author compares the welfare regime applied to India and South Korea. These two countries certainly cannot be compared in a balanced manner in terms of social policy, because in terms of economic level and social development, each country has significantly different needs. In fact, according to the IMF's World Economic Outlook, South Korea has 'graduated' from the category of developing countries since 1997 (International Monetary Funds, 1998). Indeed before 1997, South Korea was still categorized as developing countries, but now when South Korea has been categorized as a developed country, then the comparison between South Korea and other developing countries becomes irrelevant.

Besides that, a pretty interesting suggestion for this book is the author should, through a given case study, be able to illustrate the impact of changes in welfare regime, how market conditions respond to changes or unchanging welfare regimes in the country, and how will the society be after the change. In this book Rudra is too focused on justifying his argument on who gets hurt the most by RTBs, rather than giving an illustration of the causal impact of RTBs and the regime's response to the pressure of globalization itself. For example, Rudra can illustrate the causal impact that occurs when a country and its domestic institutions prefer to protect middle-class interests and interest groups through protective policies rather than prioritizing market interests. Apart from the criticism and some of the shortcomings found in this book, Rudra's work is an interesting achievement for the scientific field of political economy and welfare. Rudra successfully describes how the origin of the formation of welfare regimes in developing countries, as well as the impact of global economic pressure on the conditions of social policies and welfare regimes in the country. This discovery is very valuable for researchers who will explore the study of comparative development of the state and the scholar in the realm of international politics of economy.

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