



In Defense of Globalization

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Introduction

JOANNE MYERS: Globalization is not a new phenomenon. Although it has been described as a revolutionary force, it has been around for a very long time. If you study history, you will discover that people have traded, been on the move, colonized, and migrated since the earliest of times. In the process they have transformed both the places they came from and the places to which they traveled. But what makes our era distinct is the advances in technology, economic liberalization, and the speed with which change is taking place.

Critics of economic globalization cite the dramatic and ever-growing gaps that this process has created between developed and developing countries. It is for this reason, they argue, that globalization is an evil process and must be stopped.

So when one of the world's most influential economic thinkers comes along and contends that globalization can be an extraordinarily powerful force for social good, we should take note and listen very carefully to what he has to say.

In [In Defense of Globalization](#) Professor Bhagwati argues that this economic process is a good thing, but that we lack a clear, coherent, and comprehensive sense of how it works and how it can be improved upon. He suggests that globalization has the potential for good, for promoting open societies, and for a free exchange of goods and ideas.

One of the pleasures in reading a book by our guest this morning is that he doesn't simply parrot the predictable academic arguments, but rather writes in a clear and engaging manner for the lay reader. With his irreverent personality, he brings incredible insight to bear on this debate and bridges that divide between theorists, policymakers and the general public. In so doing he tells us overall that the benefits of globalization clearly outweigh the costs.

Currently an acclaimed professor of economics and political science at Columbia University and the André Meyer Senior Fellow in International Economics at the Council on Foreign Relations, Professor Bhagwati has had a significant impact on economic discourse in both political and academic circles. He is a Director at the National Bureau of Economic Research and has served as an economic policy advisor to the Director General of [GATT](#). He has founded economic journals and has advised India's Finance Minister on economic reforms.

Professor Bhagwati made his name in economics at a young age with the publication of provocative books on Third World development and world trade. His compulsion to address shoddy arguments has resulted in prodigious literary production, which in turn has won him multiple prizes for excellence in economic writing. In the past fifteen years alone, he has published more than 200 articles and forty books on

development theory and policy, public finance, immigration, and political economy. In truth, he is a world citizen casting a critical eye, tongue, and pen on bad policies and bad arguments wherever he finds them, a vocation that keeps him fully occupied.

Born in India, educated in Britain, and now an American citizen, he can claim to understand multiple points of view. Although to some he is known as a high priest of trade, to others, as his name implies, he is Jagdish, King of the World. And yet, for our purposes this morning, I would like to trade on his name and ask that you join me in welcoming our very distinguished guest Jagdish Bhagwati, King of the Economic World.

Remarks

JAGDISH BHAGWATI: Thank you, Joanne, for those generous and witty remarks. Let me begin by explaining why I wrote the book, particularly since my colleague is [Joe Stiglitz](#), who has written a different book, called [Globalization and Its Discontents](#).

I wrote the book not in response to fellow economists, because those are like debates in the Vatican among cardinals. We have ongoing debates on issues such as, is free trade good, is protectionism better, in what circumstances. Every generation has two or three people who raise doubts, then a majority of people on the other side.

I went to Seattle in 1999. At that time, aside from engaging in debating people like [Ralph Nader](#), there were many members of civil society who were acting in rather uncivil ways on the street. I was interacting with them, because to me it was very important as an intellectual to see why there was so much unrest.

What struck me was that the kinds of questions people were raising were very different from the ones which we economists normally address. The conclusion that I then came to was that the issues which many of the people were complaining about had to do with what can best be called social implications of economic globalization.

What is the effect of trade, of globalization, on women—in export processing zones, for example—is it hurting the cause of women? Has globalization gone so far that we don't have any sovereign control over our affairs? Is it damaging the environment? Is it accentuating child labor?

If you listen to people like [Lori Wallach](#)—and therefore Ralph Nader, who takes his cue from her—it is damaging; it is increasing poverty in developing countries. This is a very convenient argument, because if you want to protect yourself and you can convince yourself that by protecting yourself you are also helping the people whom you are hurting, that's a wonderful position to be in psychologically. Then you can freely advocate protection.

You go down the line: impact on poorer countries, impact on us, and the loss of our labor standards which we have fought for for over a century. If people say, "We're going to disappear to Singapore or Malaysia and if you don't take a cut in your labor standards," this is a genuine worry on the part of many.

I decided to go systematically through a number of these questions, read the literature, talk to people, and find out what ailed them, and then take those worries and see whether globalization was a positive or a negative force.

At that time, I also happened to be advisor to the UN on globalization. Whatever problem they were debating, I would always hear them say "in a globalized economy" or "because of globalization." There was no logic. They asserted each time that globalization was going on and here were all these horrible things, even at the beginning of the 21st century, that somehow one was the cause of the other.

I started with two hypotheses, one of which was the terminology that "globalization needs a human face." These are people who are worried that on balance economic globalization has an adverse impact and they get a marginal impact on these issues.

The conclusion I reached was that globalization had a human face, meaning that on balance it advanced rather than set us back on the agenda. The intervention you come up with then changes dramatically depending on which viewpoint you take. There are one or two issues on which I would depart from my own conclusion.

Suppose you claim that improving export performance will expand child labor because parents will say, "I'll take one more child out of school and put her to work because I am getting more income as a result of being able to export." So the income effect of additional export earnings as the result of globalization would be to have a wicked parent say, "I'm going to maximize the family income," and therefore that it will hurt your drive to reduce child labor.

In that case, you are faced with what economists call a tradeoff problem, because you value additional income for the peasants who will be earning these additional incomes; at the same time, socially you also value education for children rather than working.

In the jargon, we would say that we must have a social welfare function for society, a tradeoff between child labor and income. Supposing that you say, "It reduces child labor because parents are not wicked." A virtuous parent will take children, now that they are better off, away from work and put them into schools. There is a huge amount of evidence in several countries which show that parents do not act in the wicked fashion we might expect.

What is the policy implication? Certainly you don't want to stop globalization; you want to promote it.

But you could still say that you are not content with the pace at which child labor is being reduced through legislation, incentives, globalization, additional incomes being earned, and other policies. I want to think of additional policy instruments to make it better off. The question then is: what is the policy equivalent for each of those agendas of those additional policy instruments?

I do not touch on outsourcing in the book, because it wasn't an issue at the time, but it is also a more conventional protectionism issue, like is outsourcing good or bad for us. It has some elements of the civil society implications because part of the debate also is whether outsourcing is hurting workers, what is it going to do to the middle class, and to our labor standards and workers. Most of the debate on outsourcing has been whether it is good for the United States in terms of aggregate income.

The book is about civil society worries, which are very different, which are bad social implications of economic globalization.

The one issue on which I do express reservations is what is happening today with the very massive response possibly due to Internet and to the possibilities of transfers of funds. So while there were capital flows in the old days, in the 19th century, today you can have \$50 billion go out in one day.

So should you go and borrow more money just by having capital account convertibility, which is something that unfortunately the U.S. Treasury and the IMF encouraged countries to do? This caused enormous disruption in Asia, and the IMF itself has since reversed its position.

It's only our Administration right now which wants to because it is ideologically linked to capital flows and they have been trying to get it in through bilateral trade agreements with Singapore and with Chile, by saying that you can't use capital controls.

Our current game plan is to shove in all ideological issues, lobbying concerns into these little bilaterals, then establish templates, and then break up the coalition of the developing countries of the WTO. You have to put politics into the economics.

But on capital flows it would be very hard to find a decent economist today who doesn't share the concerns. It just happened as a normal swing of the pendulum, because you had so much intervention everywhere in the past.

The trouble with developing countries is that [Adam Smith's "invisible hand"](#) is nowhere to be seen. So naturally you are trying to move to the other side, and you had to hold yourself at the center, not go over to libertarianism as a recoil.

JOANNE MYERS: I would like to open the floor to questions.

Questions and Answers

QUESTION: In statements by the UN Secretary General, there is an acknowledgement that globalization is overall something good, or at least has enormous potential to improve the lot of humankind.

The "human face" metaphor is about looking after the losers, and we are allies on that point, because if you think that it is positive and you want it to proceed and you don't want either a Seattle-type reaction or, as is very common, a developing country government *dirigiste*-type reaction, then you have to say, "But there are things that states, and even maybe international organizations, can do to soften the effect on some of the losers and make everyone feel that they are included." Irrespective of your direct economic gain or loss, the feeling that you are caught up in a massive global movement over which you have no power is very strong in many parts of the world.

There is also a discourse that is necessary about empowering people and preserving a state for the political process so that people are seen to be citizens and voters who can have an impact, rather than only affecting the world as consumers by the choices they make in the market.

I can't resist remembering that four years ago you said that despite your reservations about some aspects of Governor Bush's program, you were going to vote for him because of your concern about Vice President Gore's program in the area of trade. My thought, from the way you spoke just now, was that you were hinting that you had made a different calculus this time.

JAGDISH BHAGWATI: You must have reversed Bush and Gore, because I did vote for Gore. I would never vote Republican. I said that if I was voting on the single issue of trade, which I never would, then unfortunately the Republicans are closer to sanity than the Democrats are. Unfortunately, with Senator Kerry it has gone much further than under Gore. Man doesn't live by bread alone and I don't vote by trade alone.

But going back to the question you were raising earlier, there is a tendency to say "winners and losers," to the point where we wind up believing that there have to be lots of losers. What the book does show is that no, there aren't all that many losers.

But for the small groups which are hurt, here is an institutional way of helping, which we have been doing in this country since 1962, when President Kennedy instituted an adjustment assistance program with George Meany of the AFL-CIO to get the [Kennedy Round Negotiations](#) going.

One of the things I frequently agitated about is that the poor countries which are trying to liberalize to share in the prosperity don't have these adjustment assistance programs.

We have to be imaginative in addressing this issue, not just stay put with the kinds of solutions from President Kennedy's era.

But when you ask, "Will there be losers in the working class?" I argue that there is very little evidence that the working class has been hurt.

QUESTION: My question is related to the impact of globalization and the effect on the environment; because with China doing so well, would you comment on globalization's impact on what many of us in economic development think of as a catastrophe waiting to happen? Or do you see ways in which the impact on the environment will change because of new investments, new technologies?

JAGDISH BHAGWATI: You are absolutely right. But again, I ask, is that really globalization? I call them

socially undesirable results.

China's developing is simply based on everybody having cars, and they think that's part of development.

The whole problem is one of changing valuations of the environment. We have been making progress and that's where the role of the environmental NGOs is most important.

Also, on the Africa problem, where I am on the advisory committee for the Secretary General, there is a huge need for skilled manpower to handle AIDS and malaria—they will need doctors and nurses—and to be able to get into our markets on agriculture, which is where pesticides are involved. We have to worry about pesticides, but at the same time it does make it difficult for poor countries to export to us. If they don't have scientists handling these sanitary issues, they will not be able to get into our markets.

Nothing would have happened on the environment unless the NGOs were there busily pushing for a different tradeoff between income and environment. But I totally agree with you that we have to deal with the environment. And globalization must follow from that, because if you value things differently, you won't trade on them either. You won't be just cutting down your forests that way; you will be worried more about keeping them. So policies will follow suit, and trade is only following what you do by way of production and consumption.

QUESTION: One of the things that drove people into the streets in Seattle is enormous resentment against the concentration of power, the homogenization of the marketplace, the fact that streetscapes in every major city around the world have the same collection of Starbucks and Wal-Marts. Their stranglehold on the marketplace is everywhere.

And with that comes inordinate power, and we are at their mercy. Whether it's big pharmaceuticals or big tobacco, the transnational corporation is so powerful and controls so much of our lives as consumers and as citizens.

This raises questions about regulation and policing the marketplace, about the quality of corporate governance and its ethics and enforcing a certain standard. To what extent do you deal with that element of globalization in your book and that source of resistance to globalization?

JAGDISH BHAGWATI: I have a chapter on culture and globalization and another on multinationals where some of these issues are also raised. Globalization is an extension of this corporate capitalism.

Many people feel about corporations' profits the way people in the Middle Ages felt about usury and people giving loans, so you have to go back to [Shylock](#). This will not change in the next hundred years. It's a very deep-seated feeling which people have, and throwing facts at them doesn't help very much. From an economics point of view, one can point out that there is competition between McDonalds and Burger King, so when [Tom Friedman](#) says there will not be war between two people having McDonalds, I ask him, "What about one having McDonalds and another one having Burger King—will they go to war?"

But the reality is much more complex. Corporations are not just taking over but exploiting people. Yet there is also a lot of evidence to the contrary. They are hiring people; they are adding to the demand for labor; they are paying an average premium of 10 percent over the local wages. So to say that they are exploiting workers is not totally valid.

Culture is very important. People worry that our tandoori chicken might disappear if Kentucky Fried comes in, but if you have eaten Kentucky Fried, there is not much to worry about. I cite evidence on McDonalds for instance in China. They surveyed Chinese kids, "Do you think McDonalds is Chinese or American?" and more than half said that it was Chinese.

I also cite an apocryphal story of a Swede coming to see his granddaughter at Columbia and the first thing he tells her is, "*Ja, ja*, they even have a McDonalds in New York."

We see assimilation all the time. But between the EU and the United States, there are areas of friction which arise from cultural differences. Here, technology is regarded as something that solves problems,

whereas in Europe the tendency is to think that it creates problems.

The *New Yorker* had a cartoon on genetically modified (GM) foods where the customer is telling the waitress, "Take away the broccoli. It doesn't taste good." "Get it genetically modified."

Here, we ask: "hormone-fed beef—what are you excited about? Why are you worried about this? It's irrational."

We Americans tend to think that Europeans have the underlying desire to protect themselves in international trade. I keep telling my American friends, "This is nonsense. These people genuinely feel that way. The Europeans are not out to protect themselves, because they could easily do GM foods themselves, right? That's not the issue."

So culture does matter enormously in trade and globalization issues. But some of the concern is that somehow our culture will simply get slammed by these corporations and foreign culture.

QUESTION: In this country we talk about American values—democracy, free enterprise system—and we want to globalize such values in Latin America, in Asia, in Eastern Europe. This is what some of us perceive as a positive form of globalization. How do you deal with civil society?

JAGDISH BHAGWATI: I don't deal with that, with what the United States would like to do in terms of spreading its values.

But if you ask me about democratic values, it's a universal aspiration. There is no question in my mind that people would want it, but the way in which we present it causes resentment.

Going back to the environment, we had the turtle-excluding devices, with narrow necks, so that when you are going shrimping on the high seas, you catch turtles if you don't use turtle-excluding devices (TEDs). So we had a law saying you cannot export shrimp unless you are using TEDs. Now, only about 10% is taken in from the ocean and about 90% comes in most countries from farms along the coast where there are no turtles. But there are laws that unless you used TEDs you cannot export to us. That sounds reasonable to us Americans. That's our value; we want to protect turtles.

But poor countries raised a case about this. I talked with an environmental group in India, the head of which had won the Nobel Prize. I asked him, "How do you feel about this?" He said, "Who are the Americans to tell us to use TEDs?" He was talking like an American, because Americans would act the same way if the French told them to do something.

So then I found that he was going after the Indian government in a separate incarnation saying, "You must use TEDs." So he believed in TEDs and he was working at it and making life difficult for the Indian government, but he was completely opposed to Americans telling him.

This gets back to why I will vote for Kerry on November 2. Bush has been unilateral, and counterproductive, in saying, "This is our value; you take it, not leave it; we will make you do it. Take it and take it." The Democratic Party also tends to use the whip rather than persuasion on democratic values, labor rights, or human rights. With countries that are off the charts, which are not democratic, that is a different problem. But many countries are democratic in one way or another, they have NGOs, they have CNN now, and all sorts of possibilities of making moral suasion work better than simply cracking the whip.

When you have a moral cause, like environment or labor rights, you should be able to use moral suasion. If it is a matter of saying pay royalties for intellectual property, that is where you may want to crack the whip because there is no morality involved, it is just a matter of economics. But if it is a morally valid, plausible case, you should be able to use moral suasion.

If you want to advance social agendas, like labor standards, should we use sanctions of one kind or another, or should we use techniques where we really advance the agenda?

QUESTION: Speaking of civil society and the role of NGOs, we tend to see the world in micro and in local terms. Does your book address population control, particularly in terms of balancing resources, such as water?

JAGDISH BHAGWATI: No I don't, because it's a book about globalization, and not development. But I do advance the argument that we have to work with civil society, particularly at the micro level. India, for example, has about 3 million NGOs, many of them mom-and-pop operations, and I discuss how it has to do with women's education, because most of them are women-run.

The joke on the subcontinent today is, "If you are looking for a good bride for your son, in the old days you had to promise her her own flat so that she didn't have to live with her mother-in-law. But today you've got to offer her her own NGO." I know of at least two cases where that is true.

NGOs at the ground level are the ones with the altruistic motivation, they have the micro knowledge, they are the eyes and ears of the government, of a good government, and they have to be in a partnership with you. But governments are going to be remote, they're going to be in Washington, D.C., or New Delhi, and the big countries need those eyes and ears.

I don't have the same benign view of most of our international NGOs, because many of them tend to become like Monsanto Chemical. They are diversifying into all kinds of areas to have more and more business. Oxfam is now doing trade, and it leaves something to be desired in terms of the positions they take. Many of them are ill-informed and harm the poorer countries. [Mallaby's book on the World Bank](#) produces many examples where he argues that some of these NGOs have harmed the cause of poverty elimination in the poorer countries.

Part of the problem is that they are big enterprises, and, as such, encounter the same problems that the big corporations do when they over-extend and lose control. Why this is happening I haven't studied, but it is very much a question of portfolio diversification, aggrandizement of new areas, to the detriment of the original purpose for which they were founded.

But this is not a permanent affliction. Civil society is doing a lot of very good work, and I remain very pro civil society.

JOANNE MYERS: Thank you very much for being with us this morning.

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