

UNU World Institute for  
Development Economics Research  
(UNU/WIDER)

WIDER Annual Lectures 4

**Globalization and  
Appropriate Governance**

Jagdish Bhagwati

**UNU World Institute for Development Economics Research (UNU/WIDER)**  
A research and training centre of the United Nations University

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00160 Helsinki, Finland

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Camera-ready typescript prepared by Lorraine Telfer-Taivainen at UNU/WIDER  
Printed at Edita Prima Ltd., Helsinki

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ISSN 1455-3082  
ISBN 92-9190-178-4 printed version  
ISBN 92-9190-179-2 internet version

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## FOREWORD

The year 2000 WIDER Annual Lecture carried special prestige for two reasons. First, the year 2000 marked the 15<sup>th</sup> anniversary of WIDER and, second, we were, and indeed still are, on the threshold of a new millennium, offering us new challenges and opportunities.

Consequently, it was a great honour for us having one of the world's leading trade theorists, Professor Jagdish Bhagwati, deliver the lecture on a topic that is of great concern to mankind: Globalization and Appropriate Governance. The lecture was held at the House of Estates in Helsinki on 27 November 2000.

Jagdish Bhagwati, a professor at Columbia University, is one of the foremost trade theorists of our times and the most distinguished scholarly advocate of liberal trade. Besides international trade, he has also made important contributions to development theory and policy, public finance, immigration, and the theory of political economy.

In this thought-provoking lecture, Professor Bhagwati presents us quite a different perspective on globalization than what we get in the polarized debates in the media between its proponents and opponents. He first argues that the different dimensions of globalization may have different impacts. Therefore, to analyse the debate, globalization needs to be disaggregated instead of being treated as a gigantic whole. Concentrating on international trade and direct foreign investment, Bhagwati shows that these two dimensions of globalization are economically benign. He then argues that they can even be socially benign, i.e. they can produce beneficial consequences for a variety of social objectives. However, this holds only as a general tendency, meaning that this is not always true and that downsides will occur. Consequently, appropriate governance is needed at both national and international levels to manage globalization. The maximal speed of globalization is not necessarily optimal.

Matti Pohjola  
Deputy Director, UNU/WIDER  
Helsinki, February 2002

## **AUTHOR'S ACKNOWLEDGEMENTS**

This is the revised text of the Jubilee 2000 WIDER Annual Lecture, delivered in Helsinki on 27<sup>th</sup> November. My thanks are due to WIDER, its then Acting Director Professor Matti Pohjola, its incoming Director Professor Tony Shorrocks, and its ever helpful staff for a most enjoyable, and intellectually stimulating, stay in Helsinki. I have profited from the efficient research assistance provided by Bikas Joshi and Olivia Carballo.

## ABOUT THE AUTHOR



Jagdish Bhagwati is University Professor, Columbia University and Andre Meyer Senior Fellow in International Economics at the Council on Foreign Relations, New York (2000-2). He was Ford International Professor of Economics at MIT till 1980, and was Economic Policy Adviser to the Director General, GATT, during 1991-3 and Special Adviser to the UN on Globalization (2000).

Currently, he is External Adviser to the Director General, WTO. Five volumes of his scientific essays, and two volumes of his public policy essays, have been published by MIT Press.

He has received several honorary degrees and prizes, among them the Seidman Distinguished Award in Political Economy (USA), the Bernhard Harms Prize (Germany), the Freedom Prize (Switzerland), the Kenan Award (USA), the John R. Commons Award (USA), the first Mahalanobis Memorial Medal (India), the Eccles Prize (USA) for excellence in economic writing, and the first Suh Dong Award (Asia), given by Asian NGOs.

He has been elected fellow of the Econometric Society and member of the American Academy of Arts and Sciences, and the American Philosophical Society. Three festschrift volumes have been presented to him, in the Netherlands, the UK and the USA, the former two published by Routledge and Macmillan in UK and the last by MIT Press, edited by Robert Feenstra, Gene Grossman and Douglas Irwin.

## INTRODUCTION

I am overwhelmed by the generosity of Professor Pohjola's welcoming remarks. It is customary to say, on such occasions, that my mother would have believed every compliment that he directed at me, that she might even have considered the praise wanting, but that I realize that I do not deserve it. But that is unlikely to work tonight. Too many of you know well my wife, Padma Desai, who directed a successful project for WIDER some years ago and is also a frequent visitor to Finland in other capacities. So you can believe me that, if she were present, she would have responded mischievously, since she moves between putting me on a pedestal and putting me in my place, 'Professor Pohjola, you have said nothing that my husband does not say better about himself'.

When I was invited to give the Jubilee 2000 Annual WIDER Lecture, I must say that I was delighted. Partly, it was because the economists who had given two earlier Annual Lectures were eminent scholars whom I hold in the highest regard; Tony Atkinson and Joe Stiglitz (the latter winning subsequently the Nobel Prize for 2001). But it was also because, if I may be frank, WIDER had secured a reputation among trade economists worldwide for being sceptical of, if not hostile to, freer trade. This reputation, or shall I say notoriety, was all the more strange because Finland certainly has thrived thanks to trade. And, as for direct foreign investments, even its great firm Nokia is now owned, I am told, by more than three-fourths, by foreign shareholders (among whom I am proud to include myself). I thought it would therefore be a great opportunity to be able to come to WIDER, and talk to a distinguished audience such as I have tonight, on the upside of globalization, contesting in a nuanced way the fears and worries that have come to dominate the so-called 'anti-globalizers'. In fact, I hoped that my being invited to give the Jubilee 2000 Lecture was probably a sign of a change in the intellectual orientation of WIDER on the merits and demerits of global integration. How could I not rise to the occasion?

But let me assure you that I intend to present to you a rather different perspective on globalization than you routinely get in the polarized debates between its proponents and its opponents in the streets and in polemical magazines. To be precise:

- I intend to argue at the outset that (economic) globalization needs to be disaggregated instead of being treated as one gigantic whole, with the possible

vices of one type of globalization (e.g. gung-ho liberalization of financial flows) being visited upon the virtues of another (e.g. freeing of trade). I will then concentrate, for reasons of brevity, on just trade and direct foreign investment (DFI or what the anti-globalizers prefer to call ‘multinationals’).

- Next, I will argue that most economists today agree that trade and DFI are *economically benign*, i.e. that they increase the size of the pie.
- However, many NGOs and diverse groups consider such globalization to be *socially malign*, i.e. that it produces harmful consequences for a variety of social objectives such as the reduction of gender discrimination, cultural autonomy, poverty reduction, elimination of child labour, promotion of human rights, and the strengthening of democracy.

But I will argue that these malign-impact views, which are at times tied in some radical thinking to malign-intent views of globalization<sup>1</sup> and the multinational corporations and the international institutions that are viewed as the principal agents of this malign process, are often too simplistic and that, as a central tendency, it is possible to argue that globalization is even *socially benign*.

But this case for globalization, on both economic and social dimensions, is incomplete because we need to design what I call ‘appropriate governance’ at both domestic and international levels to manage globalization, particularly in three respects:

#### *Handling the social downside*

The benign impact of globalization on social issues can only be argued as a central tendency. It still leaves open the possibility, one that can materialize in specific circumstances, that the impact is malign. This downside must be handled and requires institutional design, at both domestic and international levels, to address it.

#### *Accelerating the performance on social agendas*

But the argument that globalization is socially benign does not mean that we ought to be content with the pace at which these social outcomes are achieved. Thus, globalization can be argued to reduce (rather than increase) the use of child labour through, for instance, the economic prosperity that it brings. But we will want to go

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<sup>1</sup> The analytical categories-cum-phrases benign-impact, benign-neglect, malign-impact and malign-neglect were developed by me in 1977 when I wrote a full-length introduction to a book I edited on The New International Economic Order. They are useful in understanding and analyzing the current divisions of opinion as much as they were for the analysis of the different viewpoints when the NIEO was being forcefully argued against the Liberal International Economic Order.

faster. The question then is: what institutional and policy design will do that; e.g. the use of trade or financial sanctions (at the WTO or through trade treaties) or the use of moral suasion and harnessing of bilateral and multilateral aid and civil society groups (at the ILO, for instance) to support non-sanctions approaches to accelerate the pace of desired change?

*Optimal, rather than maximal, speed of globalization*

On the other hand, while we will want to accelerate the speed at which the social agendas are implemented by globalization, we must recognize that the optimal speed at which globalization is embraced through policy changes, e.g. the freeing of financial flows, is not necessarily the fastest speed. Shock therapy, as evident from the East Asian financial and economic crisis and from Russian experience (and also if you think about the speed at which immigration restrictions may be removed), is not necessarily the best therapy.

## **I WHY ANTI-GLOBALIZATION? A TRILOGY OF DISCONTENTS**

Before however I proceed narrowly (in Section IV) with the arguments asserting the socially malign impact as just outlined, which surely bear on the question as to why globalization provokes hostility (since, for instance, one cannot be happy about the phenomenon if it is socially malign), I should immediately say something more broadly about the intellectual, historical and sociological sources as to why globalization seems to provoke the outsized reactions that occasionally spill over into street theatre and into violence.

It is tempting of course to think that there is a primeval curse on the phenomenon. After all, if you care to count, globalization is in fact a thirteen-letter word. But, seriously, globalization has become by now a phenomenon that is doomed to unending controversy, the focal point of always-hostile passions and sometimes violent protests. It is surely a defining issue as we enter a new century. The reasons why this has happened cry out for comprehension. Without such understanding, and then informed refutation of the fears and follies that animate the anti-globalizers, we cannot adequately defend the globalization that many of us seek to sustain, even deepen.

Central to many of the protests is a linked trilogy of discontents that take the form successively of an ethos composed of anti-capitalist, anti-globalization and an acute anti-corporations mindset. These views are interlinked because globalization is

seen as the extension worldwide of capitalism; whereas corporations are seen as the B-52s of capitalism and its global reach. So I must begin with anti-capitalism.

## 1.1 Anti-capitalism

As the twentieth century ended, capitalism seemed to have vanquished its rivals. Francis Fukuyama's triumphalism in his celebrated work, *The End of History and The Last Man* (1992), was like a primeval scream of joy by a warrior with a foot astride his fallen prey. It was not just the collapse of communism in Europe and China's decisive turn away from it. As the energetic anti-globalization NGO, Fifty Years is Enough, laments, even the Swedish model had lost its appeal. The much-advertised model of 'alternative development' in the Indian state of Kerala had also run into difficulties, much as President Julius Nyrere's celebrated socialist experiment in Tanzania had run the economy into the ground. This vanishing of different possibilities has led to what I have called the 'tyranny of the missing alternative', provoking a sense of anguished anti-capitalist reactions from both the old and the young.

The old are fewer, and they matter less, than the young. They could be the generals in the war on capitalism but the young today are happy to be foot soldiers, fighting on their own. But they can make noise; and these days almost anyone who screams is likely to get, not just heard, but sometimes even listened to. The old are, of course, the anti-capitalists of the postwar years, ranging from socialists to revolutionaries. They are the ones who, especially when communists or Marxists, are captive to a nostalgia for their vanished dreams.

When the last Davos meeting was held by the World Economic Forum, in February 2001, there was an anti-Davos meeting<sup>2</sup> held in Brazil at the same time.<sup>3</sup> The rhetoric in Brazil was one of revolution. I recall George Soros, who properly considers himself to be a radical thinker, a progressive financier, going into a debate from Davos on the video monitor with some of the anti-Davos participants. I recall his frustration, indeed astonishment, when he realized that he was the enemy, not a friend, much like the Democrats were chagrined that Ralph Nader thought during the last US election that they were not really different from the Republicans.

Soros, who had not interacted with these groups, just did not get it. As far as these anti-capitalist revolutionaries are concerned, anyone who is in stocks and bonds

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<sup>2</sup> This rival meeting, timed to parallel the Davos meeting, was held again in Porto Alegre, Brazil. It described itself as the World Social Forum, while the longstanding Davos meetings are by the World Economic Forum. The contrasting title is revealing: it says that 'we are for social consequences, for humanity; you are for profits, and against humanity'.

<sup>3</sup> How many know that there is even an alternative Nobel Prize?

should be put *into* stocks and bonds. Indeed, these groups, who were memorializing Che Guevara and listening to Ben Bella, were the exact antitheses of the Arthur Koestlers of the world who wrote of ‘the god that failed’. They were working from a script titled ‘The God That Failed but Will Rise Again’—they only had to keep the faith.

But the globalizers must also confront the young. And if you have watched the streets of Seattle, Washington, Prague, Quebec and Genoa where the anti-globalizers have congregated with increasing militancy, or if you see their impassioned protests on the campuses as I have watched the Anti-Sweatshop Coalition’s activities at my own university (Columbia), there can be no doubt that we have here a phenomenon that is truly important in the public space and also more potent. The nostalgia of the fading generation cannot compete with the passions of the rising generation.

So, how is the discontent of the young to be explained? Of course, a rare few among them are like the old. Consider Global Exchange, an NGO that likes to describe itself as a human rights group—this is the ‘in’ phrase much as socialism was three decades ago and its moral resonance immediately gets you on to higher ground and gives you a free pass with the media and the unsuspecting public. It professes politics that is unmistakably in the old revolutionary corner and gets endorsements from the great linguist Noam Chomsky, among other left intellectuals. Quite stereotypically, it describes Israel as ‘an exclusionary state’ that ‘trains other undemocratic, abusive regimes’ around the world and complains that US aid to Israel ‘maintains the military industrial complex here in the US’. Its pronouncements on the WTO are no less dramatic and drastic: the WTO ‘only serves the interests of multinational corporations’ and ‘the WTO is killing people’.

But Global Exchange and its radical chic are really a fringe phenomenon. There are several other explanations of what animates the young in particular—each may explain part of the reality, while collectively they provide a more complete explanation.

Far too many among the young see capitalism as a system that cannot address meaningfully questions of social justice. To my generation, and that of the British left-leaning intellectuals such as George Bernard Shaw that preceded it, the Soviet model was a beguiling alternative. Indeed, my early and much-translated book *The Economics of Underdeveloped Countries* (1966) contains a distinct nod towards the Soviet Union: ‘The imagination of many ... nations has been fired, perhaps most of all, by the remarkable way in which the Soviet Union has raised itself to the status of a great power by its own bootstraps and in a short span of time’. How appalling a

misjudgement this view of the Soviet alternative seems today. How commonplace it was then.

That capitalism may be viewed instead as a system that can paradoxically destroy privilege and open up economic opportunity to the many is a thought that is still uncommon. I often wonder, for example, how many of the young sceptics of capitalism are aware that socialist planning in countries like India, by replacing markets system-wide with quantitative allocations, worsened rather than improved unequal access because socialism meant queues that the well-connected and the well-endowed could jump whereas markets allowed a larger number to access their targets.

But the anti-capitalist sentiments are particularly virulent among the young who arrive at their social awakening on campuses in fields other than economics. English, comparative literature and sociology are fertile breeding grounds. Thus, deconstructionism, espoused by the French philosopher Jacques Derrida, has left the typical student of literature without anchor because of its advocacy of an 'endless horizon of meanings'. Terry Eagleton, the sympathetic chronicler of modern literary theory, has written:

Derrida is clearly out to do more than develop new techniques of reading: deconstruction is for him an ultimately political practice, an attempt to dismantle the logic by which a particular system of thought, and behind that a whole system of political structures and social institutions, maintains its force.

True, the Derrida technique will deconstruct any political ideology, including Marxist. Typically, however, it is focused on deconstructing and devaluing capitalism rather than Marxism, often with nihilistic overtones which create the paradox that many now turn to anarchy, not from Bakunin but from Derrida. The heavy hand of Marxist texts on students of literature, on the other hand, has been beautifully captured by V.S. Naipaul in his compelling portrait in *Beyond Belief* of the Pakistani guerrilla Shabaz who went from studying literature in England to starting a revolution in Baluchistan that failed:

There were close Pakistani friends at the university. Many of them were doing English literature, like Shabaz; it was one of the lighter courses, possibly the lightest, and at this time it was very political and restricted. It was encouraging Marxism and revolution rather than wide reading. So Shabaz and his Pakistani friends in their Marxist study group read the standard (and short) revolutionary texts, Frantz Fanon, Che Guevara. And while they read certain approved Russian writers, they didn't read or get to know about the Turgenev novels,

*Fathers and Sons* (1862) and *Virgin Soil* (1877), which dealt with conditions not unlike those in feudal Pakistan, but questioned the simplicities of revolution.

As for sociology, many of its students are influenced equally by the new literary theory and the old Marxism. They stand in contempt of economic argumentation that would refute their rejectionist beliefs about capitalism by asserting that economics is about value whereas sociology is about values. But they are wrong today on both counts.

Economists will retort that, as citizens they choose ends, but as economists they choose the (best) means. Moreover, accused of indulging the profit motive, they respond with the legendary Cambridge economist, Sir Dennis Robertson, that economics is addressed heroically to showing how man's basest instincts, not his noblest, can be harnessed through appropriate institutional design to produce public good. Adam Smith would surely have died an unsung hero if he had peddled the pedestrian argument that altruism led to public good.

And, indeed, economists' policy analysis necessarily requires the use of criteria that enable one to say that one policy is better than another. That takes them straight into moral philosophy, of course. One could thus argue that the philosopher John Rawls' input into economic theory has been as profound as that in philosophy: in fact, he drew on the economist Nobel laureate William Vickrey's concept of the 'veil of ignorance' and gave economists back the maximum principle. A fair trade, I should say.

The presumption that sociology is a better guide to ethics than economics is also misplaced. Certainly, its related discipline, social anthropology, whose many adherents now find their voice in some NGOs, foundations and in the World Bank, traditionally leans towards *preserving* cultures whereas economics in our hands is a tool for *change*. Fascinated by social anthropology, and deeply buried in the writings of the legendary A.R. Radcliffe-Brown and many others, when I studied in England, I still wound up preferring economics for my vocation. What other choice could really have been made by a young student from a country afflicted by economic misery? Indeed, if reducing poverty by using economic analysis to accelerate growth and therewith pull people up into gainful employment and dignified sustenance is not moral, and indeed a compelling imperative, what *is*?

But I should add that many of these students are also susceptible to the biting critical view of economics brilliantly propounded by Rosa Luxemburg in her classic essay on 'What is Economics', the first chapter of a proposed ten-chapter work,

only six of which were found in her apartment after her murder. She had argued that ‘the new science of economics’, which had reached the status of an academic discipline in Germany, was tantamount to an attempted legitimization of the ‘anarchy of capitalist production’ and was essentially ‘one of the most important ideological weapons of the bourgeoisie as it struggles with the medieval state and for a modern capitalist state’. The ‘invisible hand’, with its rationalization of markets, had a hidden agenda, hence it lacked veracity—a non sequitur, of course.

But I also think that an altogether new factor on the scene that propels the young into anti-capitalist attitudes comes from a different, technological source in a rather curious fashion. This is the dissonance that now exists between empathy for others elsewhere for their misery and the inadequate intellectual grasp of what can be done to ameliorate that distress. The resulting tension spills over into unhappiness with the capitalist system (in varying forms) within which they live and hence anger at it for its apparent callousness.

Today, thanks to television, we have what I call the paradox of inversion of the philosopher David Hume’s concentric circles of reducing loyalty and empathy. Each of us owes diminishing empathy as we go from our nuclear family, to the extended family, to our local community, to our state or county (say, Lancashire or Montana), to our nation, to our geographical region (say, Europe or the Americas), and then the world. What internet and CNN have done is to take the outermost circle and turn it into the innermost, while the same technology, as Robert Putnam has told us, has accelerated our moving to ‘bowling alone’, glued to our TV sets and moving us steadily out of civic participation, so that the innermost circle has become the outermost one.

So, the young see and are anguished by the poverty and the civil wars and the famines in remote areas of the world but have no intellectual way of coping with it rationally in terms of appropriate action. Thus, as I watched the kids dressed as turtles at Seattle during the riotous 1999 WTO ministerial meeting, protesting against the WTO and the appellate body’s decision in the shrimp-turtle case, I wondered how many knew that the environmentalists had won that decision, not lost it! When asked, of course, none knew what they were really protesting about. And when I mischievously asked some if they had read Roald Dahl’s famous story about the boy who had freed the giant turtle and sailed away on it into the far ocean, they shook their turtle heads. It has become fashionable to assert that the demonstrating youth know much about the policies they protest; but that is only a sentiment of solidarity with little basis in fact. True, there are several serious NGOs with real knowledge and serious policy critiques, but they are not the ones agitating in the streets.

Overlaying the entire scene of course is the general presumption that defines many recent assertions by intellectuals that somehow the proponents of capitalism, and of its recent manifestations in regard to economic reforms such as the moves to privatization and to market liberalization (including trade liberalization), are engaged, as Edward Said claims, in a ‘dominant discourse [whose goal] is to fashion the merciless logic of corporate profit-making and political power into a normal state of affairs’.<sup>4</sup> Following Pierre Bourdieu, Said endorses the view that ‘Clinton-Blair neoliberalism, which built on the conservative dismantling of the great social achievements in health, education, labour and security of the welfare state during the Thatcher-Reagan period, has constructed a paradoxical doxa, a symbolic counter-revolution’. In Bourdieu’s own words, this is:

... conservative but presents itself as progressive; it seeks the restoration of the past order in some of its most archaic aspects (especially as regards economic relations), yet it passes off regressions, reversals, surrenders, as forward-looking reforms or revolutions leading to a whole new age of abundance and liberty).

But, frankly, this view stands reality on its head. Of course, we have known since Orwell that words do matter; and the smart duellists in the controversies over public policy will often seize the high ground by appropriating to themselves, before their adversaries do, beguiling words such as ‘progressive’ for their own causes. Thus, believe it or not, protectionists in trade have been known to ask for ‘tariff reform’; today, they ask for ‘fair trade’ which no one can deny except for the informed few who see that it is used in truth to justify unfair trade practices. Phrases such as ‘corporate profit-making’ and ‘trickle down’ policies do the same for the friends of Bourdieu, creating and fostering a pejorative perception of the market-using policy changes that they reject.

It is therefore not surprising that today’s reformers turn to the same linguistic weapons as the anti-capitalist forces of yesterday. But let us also ask: is it ‘conservative’ or ‘radical’ to seek to correct, in light of decades of experience and in the teeth of entrenched forces, the mistakes and the excesses of past policies, no matter how well motivated? In fact, as reformers know only too well, it takes courage and élan to challenge orthodoxies, especially those that are conventionally associated with ‘progressive’ forces. As for the policies themselves, the fierce binary contrast drawn by Bourdieu is an abstraction that misses the central issues today. The debate is really not about conservative counter-revolution and the enlightened past order. It is rather about shifting the centre of gravity in public

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<sup>4</sup> *The Nation*, 17/24 September 2001.

action, more towards the use of markets and less towards dirigisme. It is not about whether markets, it is about where the limits to markets must be drawn.<sup>5</sup>

The present-day turn towards reforms in the developing countries is also prompted by excessive and knee-jerk dirigisme. As I often say, the problem with many of these countries was that Adam Smith's invisible hand was nowhere to be seen! Their turn to economic reforms is to be attributed, not to the rise of conservatism, but to a pragmatic reaction of many to the failure of what many of us considered once to be 'progressive' policies that would lift us out of poverty, illiteracy and many other ills. As John Kenneth Galbraith once said about Milton Friedman, and here I take only the witticism and not sides, 'Milton's misfortune is that his policies have been tried'.

## 1.2 Anti-globalization

Anti-capitalism has turned into anti-globalization among the leftwing students for reasons that are easy to see but difficult to accept. After all, Lenin wrote extensively about imperialism and its essential links to capitalism. And present-day writers such as Immanuel Wallerstein have seen the growing integration of the world economy in related ways as the organic extension of national capitalism.

Lenin's views on imperialism provide an insight into a principal reason why anti-globalization is seen by those on the left so readily as following from anti-capitalism. In his famous work *Imperialism: The Highest Stage of Capitalism*, Lenin stated that the 'distinctive characteristics of imperialism' in the form of monopolies, oligarchy and the exploitation of the weak by the strong nations 'compel us to define it as parasitic or decaying capitalism'. Nikolai Bukharin, for whose work *Imperialism and the World Economy* Lenin wrote a preface, considered that imperialism with its attendant globalization of the world economy is little more than capitalism's '[attempt] to tame the working class and to subdue social contradictions by decreasing the steam pressure through the aid of a colonial valve'; that 'having eliminated [through monopolies] competition within the state, [capitalism has] let loose all the devils of a world scuffle'.

This notion therefore that globalization is merely an external attenuation of the internal struggles that doom capitalism, and that globalization is also in essence capitalist exploitation of the weak nations, provides not only an inherent link between capitalism and globalization. It also makes globalization an instrument for the exploitation of the weak nations. And this certainly has resonance again among

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<sup>5</sup> See my review of Robert Kuttner's 'Everything for Sale: The Virtues and Limits of Markets', in *The Times Literary Supplement*, 21 November 1997, reprinted as Chapter 55 in my collected essays on public policy, *A Stream of Windows: Unsettling Reflections on Trade, Immigration and Democracy* (1998) MIT Press.

the idealist young on the left. Capitalism seeks globalization to benefit itself but harms others abroad. The Lenin-Bukharin argument then leads, as certainly as a heat-seeking missile, to anti-capitalist sentiments.

### 1.3 Anti-corporations

But central to that perspective is the notion, of course, that it is the ‘monopolies’, for that is indeed how the multinationals are often described even today in much of the anti-globalization literature, that are at the heart of the problem: they do not benefit the people abroad; they exploit them instead. Indeed, this notion of globalization as an exploitative force that delays the doomsday for capitalism at home and harms those abroad has captured some of the more militant among the naïve youth today.

The anti-corporation attitudes come to many others, who are not aficionados of leftwing literature, also from the obvious sense that multinationals are the B-52s of capitalism and of globalization that are the object of concern. Their proliferation has been substantial, unprecedented in history. But their strength is grossly exaggerated because few understand that they, even when huge, undercut one another in economic power because they compete against one another—economists describe this as markets being contestable—and their political power is similarly stifled by economic and national competition in many instances.

Yet others find it plausible that multinationals must necessarily be bad in a global economy because global integration without globally shared regulations must surely amount to a playing field for multinationals that seek profits by searching for the most likely locations to exploit workers and nations, thereby putting intolerable pressure on their home states to abandon their own gains in social legislation in what is feared to be a ‘race to the bottom’. Indeed, this view is so credible that even a shrewd and perceptive intellectual such as Alan Wolfe, who sees through cant better than most, has recently written disapprovingly and casually of the ‘policies of increasingly rapacious global corporations’.<sup>6</sup>

But appealing as this scenario may appear, it will not withstand scrutiny. Much recent empirical work shows that the evidence for a race to the bottom is practically non-existent. The political scientist Daniel Drezner has written a whole book showing that we have here much rhetoric by both opponents and supporters of globalization, but no empirical support. Econometricians have also found little to report. This may sound contrary to common sense: surely these social scientists must be consultants to the corporations? Many are not. There are plenty of reasons

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<sup>6</sup> *The New Republic*, 1 October 2001.

why corporations do not rush in to pollute rivers and the air simply because there are no regulations. I suspect that, aside from other economic reasons for not choosing say environmentally-unfriendly technology,<sup>7</sup> the main check is provided by reputational consequences. In today's world of CNN, civil society and democracy proliferation, the multinationals and the host governments cannot afford to do things beyond the pale.

So the obvious truth of the race to the bottom in an unregulated world turns out to be not so obvious. Economists are indeed a nuisance: they complicate analysis by telling you that your gut feelings are too simplistic. This makes them particularly unpopular with the young who want to believe what seems perfectly plain but is rarely so in truth. And so, many of the young zero in, with a 'gotcha' mentality, seizing on every misdeed of a multinational they can find, seeking to validate their anti-corporation biases. This surely accounts for the return of Ralph Nader; the great scourge of misdeeds by corporations. It has also magically transformed Julia Roberts, the passable actress whose triumph was as *A Pretty Woman*, into an acclaimed actress in *Erin Brockowitch*; and introduced the gifted actor Russell Crowe to celebrity on the screen in *The Insider*—both movies where a David takes on a Goliath in shape of a venal corporation.

The anti-corporation militancy that is on the rise among the young anti-globalizers is also strategic, of course. We have witnessed the brilliant way in which the anti-globalizers managed to use the meetings of the international agencies such as the World Bank, the IMF and particularly the World Trade Organization (originally the GATT), the pride of progressive architectural design regarding the management of the world economy and the permanent legacy of legendary men of vision, to protest and profess their anti-globalization sentiments. After all, these meetings were where the world's media gathered. What better place to create mayhem and get attention from the vast multitude of reporters looking for a story? So, where the old guerrillas struck where you *least* expected them, these new guerrillas strike where you *most* expect them—at these meetings.

The same strategic sense has been displayed in going after the corporations as well. Nike and Gap, two fine multinationals, now have a permanent set of critics, with newsletters and websites worldwide. With Nike and Gap household names and having gigantic overseas operations that cannot possibly avoid lapses from whatever is defined as good behaviour (e.g. that Nike does not pay a 'living wage')

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<sup>7</sup> These reasons have been discussed by me, jointly with T.N. Srinivasan, in Chapter 4 of Bhagwati and Hudec (1996). These reasons do not apply to small firms such as the furniture firms that moved from California to Mexico across the border; but then these small firms do not amount to a hill of beans in total magnitude of the equity investments flowing from the rich to the poor countries.

as Global Exchange would define it, for instance), they represent obvious targets in a propaganda war that is stacked against them. Naomi Klein, the Canadian journalist and author of *No Logo*, admitted it frankly in a recent article in *The Nation*: faced with the amorphous but overwhelming globalization phenomenon, the only way to get at it is to latch on to something concrete and targettable. So, they go after the corporations that spread and constitute the globalization that is reprehensible. We then also see teenagers carrying placards outside Staples and demonstrating in front of Starbucks while their more militant adult friends threw stones through the coffee chain's windows at Seattle. I talk with them at every opportunity. I find enthusiasm, even idealism, but never any ability to engage concretely on the issues they take a stand on. But then the Kleins of the anti-globalization movement are not fazed; it is all strategic, it is in a good cause.

#### **1.4 Political alliances**

But the recent successes of the anti-globalization forces can also be assigned to the fortuitous alliance struck between the young agitationists and the conventional organized lobbies such as the labour unions, the new pressure groups such as the environmentalists and movements such as those for human rights. Seattle saw these groups merge and emerge as a set of coalitions. 'Teamsters and turtles' joined the unions with the students and the environmentalists. 'Green and blue' joined the environmentalists with the blue-collar unions. 'Labour standards' became 'labour rights', heralding the alliance of human rights activists and the unions. The Anti-Sweatshop movement on the campuses signified the return of several union-trained summer interns who would ally themselves, and align their views, with the unions.

While these alliances have made the anti-globalizers more effective to date, the alliances themselves are fragile. Thus, after Black Tuesday's attack on the World Trade Centre, the alliance between the unions and the students has turned brittle as the campuses have turned against war and the unions for it. The turn to violence by the students at Seattle, Quebec and Genoa has also prompted union misgivings: the rank and file of the unions is not sympathetic to such tactics.

The teamsters have broken with the environmentalists over the Bush administration's decision on drilling for oil in Alaska's wildlife refuge. At the WTO, the environmentalists got their agenda, in some form, onto the Doha Development Round of trade negotiations. But unions did not have their way on a social clause, so the blue-and-green alliance is likely to have a parting of the ways, much the way there is today no unified bloc of underdeveloped nations in international economic negotiations but only coalitions around different interests that often cut across the conventional north-south divide. The fissures are therefore many and, in particular, the negative agenda of anti-globalization is unlikely to be

sufficient glue when the disparate groups start on different trajectories of positive achievements.

### **1.5 Confronting anti-globalization**

But that does raise the broader question: will anti-globalization then collapse? Do not count on it. It cannot happen unless we engage the anti-globalizers on many fronts. I will return to the subject as I close this lecture. But, for now, let me link up directly with, and then proceed to, the main agenda of this lecture as I laid it out at the outset.

Above all, we need to use reason and knowledge, in the public policy arena, to controvert the many false and damning assumptions about capitalism, globalization and corporations that I have only sketched and which cannot be allowed to fester and turn to gangrene. It is truly astonishing how widespread is the ready assumption (that is endemic by now even in some international institutions) that if capitalism has prospered and if economic globalization has increased while some social ill has worsened as well, then the former phenomena must have caused the latter. It has almost gotten to a farcical level where if your girlfriend walks out on you, it must be due to globalization—after all, she may have left for Buenos Aires.

Indeed, the chief task before those who consider globalization favourably is to confront the notion, implicit in varying ways in many of the intellectual and other reasons for the growth of anti-globalization sentiments, that while globalization may be *economically benign* (in the sense of increasing the pie), it is *socially malign* (i.e. in terms of its impact on poverty, literacy, gender questions, cultural autonomy and diversity, et al.). And we need to turn our energies seriously to managing globalization in a variety of ways, even after we have cleared up these fears and phobias.

## **II DISAGGREGATING GLOBALIZATION: FOCUSING ON TRADE**

But, if these fears and phobias are to be addressed meaningfully, we also need to recognize what I call the ‘fallacy of aggregation’. Let me remind you that globalization, even when we mean by it only its economic dimensions, embraces trade, direct foreign investment (DFI), short-term capital flows, and technology transfers and flows of people across borders. Unfortunately, both proponents and (far more so) opponents of globalization lapse into talking about globalization as an undifferentiated blob. Typically, therefore, the criticisms which are valid for one

kind of globalization are visited upon another kind which does not merit such a critique.

A fine example is the gung-ho financial liberalization that devastated East Asia after 1997.<sup>8</sup> True, there were some countries, especially Indonesia and Malaysia, which had moved to such financial liberalization pretty much on their own. But South Korea certainly had been pressured. And the pressure, coming from the IMF which was allied to the US treasury in this instance, has been widely acknowledged by many pro-IMF economists since then. There is no doubt that the proponents of such liberalization had been imprudent in their haste and were reflecting the alliance of Wall Street interests and the US administration with the treasury in a central role: both intertwined and amounting to what I called, in a widely-cited and translated 1988 article in *Foreign Affairs* ‘the Wall Street-Treasury complex’, in a throwback to Eisenhower’s ‘military industrial complex’, and C. Wright Mills’ ‘power elite’, both also of Columbia University. So, we have all been called the ‘Columbia trio’, which is the next best to being The Spice Girls.<sup>9</sup>

But this mismanaged financial globalization has little to do with conventional trade liberalization. It is hard to imagine trade liberalization being attended by such panicked massive macroeconomic disruptions of the economy. And indeed the empirical evidence shows, for no country, anything like this immense crisis following from the freeing of trade.<sup>10</sup> Yet, it became fashionable in the late 1990s to invoke the Asian financial and economic crisis to oppose the freeing of trade, at Seattle and elsewhere. Even an otherwise sophisticated (but misguided) sceptic on globalization such as Dani Rodrik wrote in *The New Republic* about fixing the trade system after citing the financial crisis—as good a non sequitur as one could find.

Of course, the non sequitur is far more common among non-economists. Indeed, when I was awarded by Asian NGOs the first Suh Dong Prize in Taegu, South Korea, a couple of years ago, for my 1988 *Foreign Affairs* article, the many NGOs

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<sup>8</sup> The emphasis here is on ‘gung-ho’. The failure to put in place the domestic institutional changes required to ensure that financial liberalization would be beneficial rather than vulnerable to the kind of disaster that broke out is the issue at hand. For a critical and comprehensive account and analysis of these failings, see Padma Desai (2002, forthcoming) *From Bangkok to Buenos Aires: Financial Crises, Contagion and Containment*, Princeton University Press: New Jersey.

<sup>9</sup> See Chapters 1-3 on this subject in my latest collection of public policy essays, (2000) *The Wind of the Hundred Days: How Washington Mismanaged Globalization*, MIT Press: Cambridge MA.

<sup>10</sup> This is not to deny that, in an open economy, there can be external shocks that pose severe difficulties of management. A supreme example is the sevenfold oil price increase in 1973 that upset the macroeconomic situation in several countries. Countries heavily dependent on primary exports, and there still are a few left, can also experience such difficulties, as will happen when the small Caribbean countries will lose their preferences from the EU on banana exports: a problem that I turn to addressing in Section V on appropriate governance.

that had organized the event, including many church groups, had posters and sessions condemning the IMF in fierce terms and even asking that my good and distinguished friend Stanley Fischer, the first Deputy Managing Director of it who had been in charge during the crisis, be put into a cell alongside General Pinochet for having committed a crime against humanity. That was bad enough, but there were also demands that Seattle be rejected, equating the two forms of globalization which have no parallel really. So, taking advantage of the fact that a prize recipient, especially in Asia, can be indelicate as long as he does it with delicacy, I chose the occasion of my acceptance speech to note the asymmetry and to argue the merits of trade liberalization *despite* the financial crisis.

### III IS TRADE ECONOMICALLY BENIGN?

Is trade truly an engine of growth?, Sir Dennis Robertson, the distinguished Cambridge contemporary of Keynes, once proclaimed. Remember, this is a question regarding central tendency, specific exceptions will arise.

From a theoretical point of view, we cannot even guarantee that free trade is always welfare-enhancing in a static sense. For, as every serious student of the postwar theory of commercial policy knows, free trade can immiserize relative to autarky if the comparison is made subject to distortions in place. When it comes to growth, the problems are even more serious. For, growth theory turns up models (such as Robert Solow's classic 1956 model) where free trade will leave steady state growth unaffected; and where it may even reduce it (as in the Harrod-Domar model with slack labour and the distribution of income affecting the average savings ratio).

The ultimate question then is whether the theoretical 'exceptions' to the case for free trade are empirically compelling. Here, the postwar evidence, based on several country-length studies under large-scale research projects undertaken at the OECD and the NBER—the former directed by Ian Little, Tibor Scitovsky and Maurice Scott in the late 1960s, and the latter by me and Anne Krueger in the 1970—strongly underlined the fact that countries that were integrating themselves into the world economy through freer trade were doing better than import-substituting, autarky-oriented countries. Recently, Sachs and Warner have turned to cross-sectional regressions to argue the same, but laying themselves open to attack because this approach leaves too many degrees of freedom open, though choice of

proxies, time periods and country samples.<sup>11</sup> Such cross-sectional analyses also cannot take into account the nuances and specific factors that must be understood in assessing the effects of different policies in each country. I therefore find these cross-country regressions to be treacherous and somewhat mechanistic, even as I agree with the pro-trade conclusions being drawn by these distinguished economists, and no substitute for the careful analysis required to assess policies.

Nonetheless, it is interesting that it is hard to find a single example in the postwar period of an autarkic country that has managed to register sustained, high growth. And that, as David Dollar has noted, when countries are grouped whether by their shares of trade to GNP have increased significantly or not, the former group also shows significantly higher growth rates.

Besides, while the recent work of the historian Kevin O'Rourke (2000), published in the *Economic Journal*, argued that, in the nineteenth century, greater protection was associated with higher growth, later work by Douglas Irwin (2001) shows that this conclusion is not robust to the expansion of the sample to include several omitted countries. Nor can the two (included) major countries with very high growth, Canada and Argentina, be fitted into the mould because they were outward-oriented countries instead and were, in fact, using their tariffs mainly to collect revenues rather than to protect import-competing industries.

I would therefore conclude that, while there is (as always) a small body of contrarian opinion among economists today concerning the adverse effects of protectionism, the general and indeed overwhelming consensus in the profession about the beneficial effects of free trade continues and is supported by empirical analysis. The serious questions about globalization in shape of trade continue to be those relating to its social effects.

#### **IV THE SOCIAL EFFECTS: GENERALLY BENIGN ALSO**

Are these malign as many civil society groups fear? Yes, they appear often to be plausible but, on closer examination, many turn out to be unfounded, either analytically or empirically, whereas the sceptics and critics often appear to have

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<sup>11</sup> Rodrik and Rodriguez (1999) have critiqued the Sachs and Warner analysis; and my sympathies are with that critique. But these authors also resort to such regressions and are equally unpersuasive in their sceptical conclusions about the effect of growth on trade, in consequence. In Srinivasan and Bhagwati (1999), a substantial riposte to Rodrik's criticisms of those who link trade to favourable growth outcomes is provided.

missed out on some of the benign effects instead. These fears relate to several areas, among them principally: accentuation of poverty in the rich and in the poor countries; erosion of unionization and other labour rights; creation of a democratic deficit; harming women; and imperilling local cultures. The culprits are twofold; globalization itself, and the international agencies—chiefly the World Bank, the IMF and the WTO—that oversee and promote the globalization in turn.

I obviously cannot address these issues in depth in the confines of a lecture; indeed, I am writing a book on the subject of this lecture where these issues will be addressed fully. But let me consider briefly just three issues that are very much talked about by civil society groups.

#### **4.1 Gender questions**

Many feminist critiques of globalization can be found today. Some relate to the harmful effects on women working in export industries, often in export processing zones (EPZs) at low wages, for short periods and without skill acquisition. Others write about women migrating to work in first world cities to work in households and looking after other women's children while their own are looked after by yet others. It has been noted that when an economic crisis hits with force, as did the Asian financial crisis post-1997, girls are withdrawn disproportionately from schools into work, and that women tend to be fired first when there is a downturn such as that brought about by IMF-required stabilization. But the anti-globalization thrust of these arguments is mistaken. It is not that there is considerable discrimination in many, indeed all, societies and economies against women.

In fact, writing in 1973, when gender questions were simply not on the economists' radar screen, I had noted in a substantial and influential article in the Oxford magazine *World Development*, the extensive gender bias against girls in education and nutrition, citing several studies at the time in non-economic literature. And a little later, I and Padma Desai had also examined the choice and success of (the abominably few) women in several Indian elections, breaking down the data by different political parties and finding, among other things, the puzzling paradox that the progressive leftwing parties seemed to be doing worse rather than better. The real question at hand, however, is: does globalization help or accentuate these unacceptable biases against women?

Thus, consider that, even when young girls in EPZs are not turned into long-term employees, many come from the rural countryside to which they return, having acquired, not skills, but an experience out of the home and even some savings that give them a certain autonomy, plus what some economists studying household behaviour today call 'bargaining power' within the household. This would have

been missing if they had not left home for the globalized EPZs. Surely, this works towards feminist objectives as UNIFEM, the UN organization dealing with women's issues, recognizes.

The same goes for women in the 'global childcare chain' who go abroad for work. It is even suggested by some critics that the migrant women in such occupations lose a sense of self-respect because they work for other women's children while missing their own. But the opposite is also possible, in my experience in my own household, and seems more likely. The key is that these women come from poor and traditional, almost feudal, societies where women's rights are far less recognized, if at all. Seeing how the women they work for are treated with greater respect and dignity, and also how they themselves are generally treated by their men and women employers with the regard and courtesy that is often missing in the feudal or traditional cultures they come from, acts as an eye-opener that reinforces their search for autonomy and individuality that unsettle the straitjacket of traditional, repressive roles that they were born into and conditioned by. Also, looking at it from the viewpoint of the employing women in the rich countries, the childcare chain enables them to go to work, a feminist gain again.

Additionally, when the IMF or the World Bank induces stabilization, and is the source of the girls and the women being hurt disproportionately, the problem is the traditional, endogenous discrimination against the female gender, not the IMF or the World Bank. Besides, I should also say that, in any event, the likely counterfactual is that the crisis, and hence the distress, without recourse to the assistance that the IMF provides would have been worse, since the contraction without such assistance would have likely been worse—the crisis would have had to be coped with in any event. The one major exception seems to be the Asian financial crisis where the IMF did goof up on its policy response advice and conditionality, pushing for the adoption of a contractionary policy with high interest rates when in fact the policy should have been expansionary instead, and thereby accentuated the distress caused by panic withdrawal of funds. The IMF therefore, not merely helped cause the crisis by pushing for imprudently hasty financial liberalization, it also accentuated, in the first year of conditionality (until its reversal), the distress caused by the crisis. Indeed, globalization's impact on gender issues is not that difficult to see in a favourable light once we begin to explore a variety of other themes. Take just two examples from the north.

First, in regard to wage differentials against women, two women economists, Sandra Black and Elizabeth Brainerd, have used Gary Becker's theory of discrimination to hypothesize that employers in globalized industries with intensified competition will find it increasingly difficult to indulge their prejudice in

favour of men and hence wage differentials will narrow faster than in non-globalized industries. Their careful econometric analysis for the United States finds, in fact, that this is so.

Second, consider the case of Japanese globalization through DFI, as Japanese multinationals poured out into the west, taking (male) executives to Paris, London, New York etc. But the men took their wives and children with them, giving the Japanese women their firsthand exposure to how women are treated elsewhere. They would become then the subtle but firm drivers of change on returning home, as would the young female and even the male children whose mindset could no longer admit the fiercely male-dominated social and economic structuring of Japanese society. Of course, this reinforced the change that has been coming from several sources, including the vast numbers of Japanese students coming to US colleges, for instance. I have argued that these students learn, like their American counterparts, to put their feet on the table in the classroom, instead of bowing respectfully to their teachers, the sensei. The diffusion of values has been dramatic in recent years,<sup>12</sup> and the role of the spouses and the children coming with Japanese DFI globalization has added significantly to the feminist component of that change.

## 4.2 Poverty in rich countries

Both ICFTU and AFL-CIO have been wedded to the notion that trade with poor countries produces poor in the rich countries. In short, trade today is resurrecting the empirically discredited nineteenth century doctrine of the immiseration of the proletariat. As I have said, Marx is striking again, but with the aid of neoclassical weapons.<sup>13</sup>

There is by now an immense empirical and theoretical literature on this subject. But the overwhelming argumentation is in favour of the view that, at worst, trade has a minor part in the play: the pressure on real wages of the unskilled workers is very much a result of non-trade factors such as unskilled-labour-saving technical change. At best, my own work exploring the Stolper-Samuelson link between trade and wages (the most plausible link, in fact) argues that trade has actually *moderated*, not even moderately accentuated, the adverse effect on wages coming from these other factors. This is also the view that emerges from the influential work of Robert

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<sup>12</sup> Thus, when the US-Japan summit broke down over trade issues in 1993 in Washington, I wrote in 1994 an article in *Foreign Affairs*, titled 'Samurai No More'. I was arguing that the US negotiators had miscalculated the response of the Japanese negotiators many of whom had been exposed to US behaviour and attitudes at US schools and who, like the Americans, were likely now to say 'see you in court', i.e. at the WTO in a dispute settlement case, instead of buckling under. As I put it graphically, the Americans thought they were fighting the samurai but they were fighting GIs instead; and they came a cropper.

<sup>13</sup> Cf. My paper with my brilliant former student, Vivek Dehejia, 'Freer Trade and Wages of the Unskilled: Is Marx Striking Again?' in Bhagwati and Ksters (1994).

Feenstra and Gordon Hanson on the effects of outsourcing of labour-intensive intermediates from the US in the last two decades on the real wages of skilled and unskilled workers—the real wages of unskilled workers have *risen* (but that, if you are interested in the different question of the wage premium for skills, the wages of the skilled have risen even faster).<sup>14</sup> In short, the fears of the unions regarding trade with the poor countries are very hard to sustain if we turn to empirical analysis. But few bureaucrats in the EC, few politicians in the EU, and almost no Democrats in the US have been willing to work with their union constituencies to say so.

Nor is the other fear, about the race to the bottom on standards, easy to uphold with systematic analysis. I have already indicated that. But just ask some telling questions whose answers do not require much sophistication. First, in the garment sweatshops that deface New York, and where the international competition is immense and sweatshops are supposed to be rampant abroad, is there any reason to think that these conditions have deteriorated in the last decade so that our sweatshops have become more draconian? I do not think so. In fact, the sweatshop conditions exist in the garment district of Manhattan entirely because of the influx and employment of illegal immigrants who cannot exercise any rights because a bipartisan consensus has long operated to go after them. They also exist because the US Department of Labor has long had no moneys to hire more than a dozen inspectors to do the job. In short, do not blame an international race to the bottom for your homegrown lapses. Second, according to a General Accounting Office (US Congress) study during the year of debate prior to the passage of NAFTA, a number of small furniture firms did cross the Rio Grande because Californian legislation on lead paint was far more tough and restrictive. Did the California regulations then get emasculated? Not to my knowledge.

Third, even the decline in unionization in the US is hard to blame on international competition with countries which suppress the right to unionize. Have those who believe otherwise never heard of the long-standing Taft-Hartley provisions on replacement workers and on sympathetic strikes that have emasculated the effectiveness of the right to strike, which is critical to successful unionization? The trend down of unionized labour in the US is a secular one and I have seen no analysis that ties it significantly to any kind of race to the bottom. In fact, I have myself seen US campuses go head on against efforts to unionize; the issues have often had to do with outsourcing of supplies to cafeterias or the attempt to unionize teaching assistants, none of which has anything obvious to do with a race to the

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<sup>14</sup> My paper, 'Play It Again Sam: Another Look at Trade and Wages' has been reprinted in my collection, *The Wind of the Hundred Days*, op. cit. and the Feenstra-Hanson study is discussed in Bhagwati and Srinivasan (2002) posted on my website: <http://www.columbia.edu/~jb38>. A full-length review and synthesis of the vast literature on the effects of trade on (absolute) wages by me and Arvind Panagariya will be finished shortly and will appear in a forthcoming issue of the *Journal of Economic Literature*.

bottom type of argument or rationale. Indeed, the campuses are rarely in globally competitive activity with campuses in poor countries where unionization is restricted. We are so far ahead as to make the assertion of a competitive race with them by the US appear farfetched.

So, the two main reasons why unions fear trade with the poor countries—that their lower wages abroad will drive down their own wages at home, and that the low standards abroad will lower hard won standards at home—are not particularly compelling. The alleged social downside of global trade and DFI seems to have little support in this instance.

### **4.3 Poverty in poor countries**

This is perhaps the least persuasive, though politically the most salient, argument of the anti-globalizers. With the Millennium Summit at the UN reiterating the need to remove poverty by a target date, any assertion that globalization accentuates poverty is a deadly charge. But its validity is inversely related to its salience.<sup>15</sup>

India and China are the two countries with immense comparative advantage in poverty and contain the largest shares of the world's poor. China's turnaround in its performance since it forcefully started integrating into the world economy is well-known. So consider India instead. During the years of virtual trade autarky, massive restrictions on incoming DFI, bloated and bleeding public enterprises that proliferated through the economy, and licensing restrictions on production and investment, India's growth rate remained around 3.5 percent per annum over a quarter century of planning.

But, starting with small reforms and large capital inflows from early 1980s and then more substantial tariff, DFI and licensing reforms starting in 1991, the average growth rate rose to over 5 percent annually. True, India began to change, not just its inward-looking policies, but also other harmful policies in what may be described as a package of unfolding reforms. But the steady if slow opening up of the economy to the world economy was a principal component. After much debate, analysts are now broadly agreed that India's poverty has finally declined noticeably. So, the argument that outward orientation, implying a thrust to greater globalization, leads to more economic prosperity (growth) and that this, in turn, reduces poverty, is consonant with the Indian experience. As it happens this is precisely what we in India had assumed more than four decades ago as we argued the choice of a strategy to raise the incomes of the bottom third of the population to a targeted minimum

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<sup>15</sup> This topic has been addressed more fully by Bhagwati and Srinivasan, 'Trade and Poverty' *ibid.*, and by Dollar and Kraay in a splendid article in *Foreign Affairs*, January 2002.

level. That growth had to be the principal way of attacking poverty, when redistribution from a few rich to the many poor could not be expected to raise the incomes of the poor by more than a minuscule amount—the great Polish economist Kalecki told me in 1962, when visiting us in the Indian Planning Commission, that India’s problem was that there were too few exploiters and too many exploited—was a strategy that seemed to me to make sense. Also because the few available income distribution data for different countries in different circumstances and with different policies at the time did not seem to suggest there was a magic bullet for a sustained assault on poverty other than to ‘grow the pie’ as the grotesque expression now goes. As it happens, that was precisely what I recommended at that time to the legendary Indian planner, Pitambar Pant, whom I was working for at the time on the strategy to raise the standard of living of the bottom three deciles to a minimum level.

Alongside this central strategy of growth was, of course, the use of additional policy instruments such as land reforms and schemes to extend credit to the poor, which were to make the growth strategy work better at alleviating poverty by improving the access of the poor to the growth process. Moreover, the revenues generated by growth were expected to be used to provide direct benefits to the poor through primary education and health programmes. Other social agendas were also embraced: women’s welfare was a principal objective and the first Indian planning commission’s distinguished and small membership in the 1950s included a well-known and forceful social worker, a child widow, Durgabai Deshmukh. Look at the Indian plan documents and several growth-unrelated policies are there.

As I, and many others such as T.N. Srinivasan have argued, the growth strategy did not work to produce the expected outcome in reducing poverty, not because that link was misconceived, but because the growth itself did not materialize due to bad policies which included chiefly anti-globalization measures.

Today, the work of David Dollar and Aart Kraay at the World Bank has extended both (1) this early analysis of the growth-poverty linkage—what I might immodestly call the original Bhagwati Hypothesis from the early 1960s—and (2) the work of Bela Balassa, Anne Krueger and many others involved in the projects of the OECD and NBER that I have already cited that established a link between pro-globalization policies and growth, to finding support for it worldwide in cross-country analysis (which, for different reasons, is a treacherous tool). I find particularly interesting, however, their simple but telling observation that if you were to group countries by their globalization as measured by rise in the ratio of trade to GNP, their growth rates, and their reduction of poverty, high performance

countries in one are high-performance countries in other respects as well.<sup>16</sup> Similar examinations of fears about the ill-effects of globalization on social dimensions such as its effect on local cultures, on the democratic process, et al., can be undertaken—I do just that in my forthcoming book. As always, matters are more complex, and on balance favourable, once one does that. But let me turn now to the question of appropriate governance, the other half of my thesis tonight.

## V APPROPRIATE GOVERNANCE

Why must we talk about the appropriate governance of globalization?

### 5.1 Handling possible downside

If globalization (on the dimensions of trade and DFI that I am focusing on) is both economically and socially benign, remember that the latter is particularly true only as what economists call a ‘central tendency’. That is to say, it is not always true. Occasionally, downsides will occur. We must then be prepared to devise institutions and policy frameworks that either reduce the probability of such downsides or can be triggered so as to cope with it; preferably we should do both. Let me illustrate.

Consider the recent NGO agitations about coastal shrimp farming. I first came across it in my work for the Human Rights Watch on whose Academic Advisory Committee (Asia) I serve. That shrimp farming, which has led to substantial exports and hence contributed to enhancing India’s growth and fight against poverty, was sought by local NGOs to be put on the agenda of a leading human rights agency seemed a trifle odd, to say the least. On examination, however, it was clear that this was precisely the sort of occasional downside that one had to address. What was the problem?

Coastal shrimp farming was damaging the surrounding mangroves because of discharge of chemicals and back-up of uneaten feed, damaging the livelihood of fishermen and others subsisting traditionally in the surrounding areas. It is not entirely clear whether this was an unanticipated problem or whether the shrimp firms were unaware of these consequences and caught flatfooted; the latter seems to

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<sup>16</sup> The comprehensive and valuable work of Alan Winters with Messrs McCulloch and Cirera for the UK’s Department for International Development, just published, also supports generally the case for a positive impact of trade on poverty reduction, while also detailing ways in which that linkage can be micro-monitored.

have been the case and let me proceed on that assumption.<sup>17</sup> Evidently, a twofold institutional response is necessary: there must be a way for the government to compensate and assist those who have been damaged; more important, there must be the introduction of a ‘polluter pays’ tax on the damaging discharges and effluents.

Let me add that the optimal outcome is likely to be somewhat reduced shrimp farming, reduced damage to the mangroves, and reduced numbers of fishermen and farmers subsisting therein. It is highly improbable that the solution would go to the extreme of forbidding the shrimp farming altogether. Yet that is what the NGOs wanted—globalization, i.e. shrimp exports, had been shown up to be an environmental hazard, a human rights violation, and that was *it*. Not merely did the episode provide the anti-globalizers among the NGOs with a damning, PR-relevant, gotcha-mentality-driven, example of globalization’s perfidy, it also revealed among the genuinely concerned NGOs their tendency to attach an infinite weight to the groups they were taking under their wing or a zero weight to the groups who would doubtless benefit from the shrimp exports.<sup>18</sup>

Take yet one more example which illustrates how there should also be institutional international change to support globalization’s occasional dark side. With greater openness, there often comes a sense of economic insecurity from the fear that more openness will create greater volatility of prices and hence of jobs. Even though the objective evidence for this fear is again not compelling, and recent empirical analyses suggest that labour turnover has not particularly increased in the US and UK despite ongoing globalization,<sup>19</sup> the fear is palpable and prompts anti-globalization sentiments. It therefore suggests that a way to support globalization politically may well be to provide additional adjustment assistance for those laid off in a way that can be linked to such volatility from import competition. Myself—in my 1988 book *Protectionism*, and an earlier 1970 NBER volume *Import Competition: Adjustment and Response*—and several others have therefore long suggested that such assistance be provided as the economy is opened up to greater trade. There are many proposals on the table, including an interesting insurance scheme by Robert Litan that would pick up a large fraction of the loss of earnings as workers are bumped into jobs with lesser remuneration due to import competition.

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<sup>17</sup> If it is the former, evidently the institutional response would have to be different, holding the firms liable also for damages under torts and possibly for criminal negligence, if there is such jurisprudence on the books.

<sup>18</sup> One sees this tendency on the part of many human rights and other NGO groups: an inability see beyond the welfare or wellbeing of their own constituency. Thus, Arundhati Roy, the author of *The God of Small Things* who, in opposing big dams, is aspiring to be ‘The Goddess of Small Things’, focuses exclusively on people displaced by the dams, not caring a fig about the many poor who will profit from the irrigation waters.

<sup>19</sup> See the discussion of this evidence in Chapter 1 of my essays, *A Stream of Windows: Unsettling Reflections on Trade, Immigration and Democracy* (1998), MIT Press: Cambridge.

There is little doubt that such assistance programmes are part of purely domestic institutional support for countries increasingly integrating into the world economy. But, in my long-standing advocacy of this type of support, I am not saying that this necessarily is what happens in reality. In fact, the recent assertion (reflecting cross-country regression analysis) by Dani Rodrik, drawing upon imaginative suggestions by the political scientist John Ruggie who was inspired in turn by Karl Polanyi, that the postwar shift to the world economy *in fact* led countries to increase spending, and social spending, relative to GNP, thus usefully ‘embedding liberalism’, in Ruggie’s terminology, into a socially active state, has failed to persuade more sophisticated students of the rise of the welfare state in the west in its many dimensions.

I should also say that policies such as adjustment assistance to cope with openness will also require international institutional change. For, the poor countries cannot afford such programmes; it is necessary therefore to devise assistance triggers for this purpose. The IMF already has several programmes to handle exogenous external disturbances that lead to need for liquidity. But we also need to bring the World Bank in so that assistance kicks in when the need for adjustment arises thanks to endogenous policy decisions to free trade. While the World Bank has occasionally done this, as when it provided special funds for workers to get adjustment assistance when India undertook its massive reforms during the 1991 crisis where the World Bank stepped in with support. But I believe this sort of support has not been institutionalized—it needs to be.

## **5.2 Accelerating the pace of social change**

Then again, the pace at which globalization advances social agendas need not be accepted. After all, the sustained 2 percent growth rate annually during the Meiji era in Japan is no longer considered the miracle it was once regarded. Today, if a developing country registers growth below 6 percent annually, it is regarded as a failure. We have addressed much analysis and effort to securing such an accelerated growth rate. Why not the same with the speed at which we achieve social agendas?

So, we need to consider the ways in which we can reinforce the benign social effects of globalization. Thus, child labour is known to decline as economic growth occurs. But what can we do to accelerate its removal? This is where the question of appropriate choice of policy instruments, and international agencies to oversee them, becomes pertinent.

The current conflict is between those such as the ICFTU and AFL-CIO which want trade sanctions, and hence inclusion of a social clause in the WTO, to reduce child

labour and to achieve other core labour standards, and those such as the Indian trade unions (whose membership exceeds 7 million, which is not a great deal below that of the AFL-CIO whose massive funds enable it to make greater noise and get larger attention) and key developing country NGOs, such as the Third World Network of Malaysia and CUTS of India, which would rather see non-sanctions-based approaches and the location of the issue at the ILO instead. My own sympathies lie with the latter position and that happens also to be the position of a great many international and developmental economists (such as Arvind Panagariya, T.N. Srinivasan, Alan Deardorff, Robert Baldwin, Robert Stern, Paul Krugman, Drusilla Brown and Kaushik Basu) and financial and economic media such as *The Economist* and *The Financial Times* who have written about this choice.<sup>20</sup>

### **5.3 Optimal, rather than maximal, speed of globalization**

Again, the question of appropriate management of globalization requires attention to the speed at which globalization must be pursued. The difficulties that Russia got into under shock therapy are a reminder that the best speed is not the fastest speed. Jeffrey Sachs, who favoured shock therapy in Russia, used to argue by analogy: one cannot cross a chasm in two leaps. To which my wife, Padma Desai, a Russian expert whom I might beg to quote, replied: ‘one cannot cross it in one leap either unless one is Indiana Jones; it is wiser to drop a bridge’. Or to use another analogy: if you kick a door open, it may rebound back and close instead.

A dramatic example of mismanagement (through excessive speed) of globalization, of course, is the imprudent and hasty freeing of capital flows that surely helped to precipitate the Asian financial and economic crisis starting 1997. Again, if one thinks of immigration, it is clear that rapid and substantial influx of immigrants can precipitate reaction that may make it extremely difficult to keep the door open. There is clearly prudence in proceeding with caution, even if one considers, as I do, that international migration is an economically and socially benign form of globalization.

And so, in these different ways, globalization must be managed so that its fundamentally benign effects are assured and reinforced. Without this wise management, it is imperilled and at risk.

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<sup>20</sup> The pertinent arguments need to be looked at in the original and are available in several places. My own are reprinted, for the most part, in my collections, *A Stream of Windows* and *The Wind of the Hundred Days*, op. cit. See also my testimony on the US-Jordan Free Trade Agreement, where the central questions related to the inclusion of labour standards in trade treaties and institutions; it is available from Olivia Carballo at ocarballo@cfr.org.

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