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Why the Critics of Globalization are Mistaken

By

Jagdish Bhagwati

Jagdish Bhagwati is University Professor, Economics and Law, at Columbia University, New York, and Senior Fellow in International Economics at the Council on Foreign Relations. He has just published Termites in the Trading System: How Preferential Agreements Undermine Free Trade (Oxford, 2008) and is finishing a new book titled Terrified by Trade: Institutional Change to Address Anxiety and Contain protectionism (Oxford, 2009).

Globalization is the target of many critics today. The young see it as a malign force in regard to social agendas. The workers see it as a pernicious force in regard to their economic well-being. But both sets of fears, and resulting opposition to (economic) globalization, especially via trade and multinationals, are mistaken.

Social Critiques

The social critiques came to a head at the WTO Ministerial meeting in Seattle in November 1999. I was there that week, debating Ralph Nader, the great anti-globalization activist in the City Hall and mixing with the unruly, diverse agitators.

I realized that they were not interested in whether trade and globalization more generally was good for economic prosperity. They were worried instead about the effects on social agendas and believed that these were malign, not benign. Thus, for the poor countries, many believed that globalization would increase poverty, increase the use of child labour, and harm their indigenous populations. Cutting across countries, rich and poor, they thought that gender issues would be set back, environment would be damaged, and that multinationals were predatory. To use a phrase made familiar by Tony Blair, Gerhard Schroeder and Bill Clinton, they believed that "Globalization Needed a Human Face", i.e. that it lacked one.

So, in my book, In Defense of Globalization, just published by Random House in German with a Preface by Joschka Fisher, I focused on all of these critiques and concluded that, on balance, globalization advanced, instead of handicapping, these social agendas. So, Globalization Had a Human face.

Let me illustrate with the issue of gender equality. Take pay inequality. Since paying men more than equally qualified women is costly, and industries competing in the world economy face fierce competition and cannot afford to indulge their prejudice against women, one would expect that gender inequality in pay would reduce faster in tradable industries. That is just what the evidence for the United States over a twenty-year period shows.

Again, we know that women's pay tends to be low because women typically are traditionally assigned to occupations, such as secretarial and school teaching, where the pay is less. To change that, women's aspirations, and then their entry into higher-paying occupations, must change. That is again precisely what foreign investment tends to promote. When Japanese multinationals came to New York, London, Frankfurt and Paris in the 1980s, the executives were all men. But their wives came with them and saw how women were better treated, and had greater opportunities, than in Japan. So, they observed, learnt, and became powerful agents of change when they returned. So, today we have had Madame Ogata as the UN High Commissioner for Refugees and many others in political office: Japan has changed for the better for Japanese women and globalization has contributed to this emancipation.

<u>Economic Critiques</u>

Today, much of the social agitation has gone into low key in most countries except France and Germany, if it survives at all. If I was self-indulgent, I would say that my book has served to subdue these fears across the world except in these two countries which so far had not translated the book and made it available to the anti-

globalization groups. The book is still not in French: for a country that prides itself on its intellectualism, it is strangely closed to even discussing ideas contrary to its prejudices. But the German edition should put the book in the hands of the young idealists here who need to read it most so that they can see that their knee-jerk anti-globalization attitudes are not persuasive and that progressive concerns need to be redirected to more deserving objectives.

But today, it is the economic rather than the social critiques that have moved to center stage, in the US, Germany and France. They reflect fears among the workers about jobs and wages. These take many forms. Consider only two arguments.

First, the fear of India and China is palpable. Many ask: How could we compete with these giants, especially when they have so much unskilled labour with low wages? It is ironic that, when I was in India in the early 1960s, it was the underdeveloped countries that worried as to how they, with only abundant malnourished labour, could compete with the rich countries with better-nourished labour and more skills and infrastructure! Well, the Far Eastern countries demonstrated at the time that the poor countries could compete; and the rich countries today must also see that they can also.

Besides, many people are just terrified by the sheer size of India and China. Often, in regard to outsourcing, the terrified middle class professionals in the United States think that this is an open valve through which all kinds of jobs will shift abroad, especially to India and China. But this is nonsense. Of the age cohorts (i.e. groups) that can go to College in India, only 12% do. Of these, only a small fraction

studies English. Of these, only another small fraction can speak English. And then only a further small fraction can speak English in a way which you and I can understand! So, the large "reserve army of labour" that the fearful conjure up is simply imaginary! Again, for China, serious economists argue that they already produce more engineers than the United States. But what about their quality? And what about the fact that the huge fraction of these will be engaged in non-traded activities like bridge and road repair and domestic construction? Also, many will simply replace the stocks depleted during the Cultural revolution.

And, as for China, their wholly deplorable human rights situation and the safety problems they have run into because of inadequate quality control also constitute gigantic obstacles to their exports. The United States has also violated human rights in deplorable fashion in many ways: in its "war on terror" and in Iraq, its undermining of the right to unionize which is sacrosanct at the ILO, its continued use of capital punishment and its extension even to minors, and its record in South America and the Middle East in overthrow of regimes through clandestine operations. But that will not hold back the NGOs that go after China whose main problem, and drawback, is its lack of legitimizing democracy.

<u>Second,</u> the stagnation of wages over nearly three decades in the United States has little to do with international competition from the poor countries. Most studies conclude that. In fact, some by me earlier and by Robert Lawrence of Harvard University recently, argue that empirical analysis strongly supports the contrary view that trade with the developing countries has actually been good for the poor in the rich countries. Some of the academic stars among the Democrats,

especially Paul Krugman who has a column in the New York Times and former Secretary of the US Treasury Lawrence Summers, who has a column in The Financial Times, have been less than forceful on the issue but with little evidence on their side. But I put it down to the political season: maybe they do not wish to take issue with the Democratic orthodoxy, and Party platform, that is heavily captured by the alarmist view of the subject.

I have also heard another distinguished former Treasury Secretary, Robert Rubin, say recently that no matter how much we shout from the rooftops and in the streets that free trade helps wages and economic prosperity, no one today will believe it. But that is a counsel of despair. If we are to have an informed democracy, and good policy, we cannot throw up our hands in despair. Instead we ought to redouble our efforts at education and argumentation. President Clinton, who fought for the (multilateral) Uruguay Round and (unfortunately) for the preferential NAFTA agreement with Mexico, confronted the unions and their captive politicians politically. But he never sat down with them and with the top trade economists of the day to persuade the former group of naysayers about the merits of these trade-liberalizing treaties. It was a major mistake.

Ironically, some economists like my Columbia University colleague Joseph Stiglitz have also argued that freer trade offers little benefits to the developing countries either. He has recently argued that these countries will benefit only "when there are good risk markets, [and] when there is full employment …" (Far Eastern Economic Review, 2006).This is nonsense, of course. Lots of poor countries have profited from openness in trade; almost none of them had "good risk markets".

Again, suppose that there is unemployment. If Stiglitz loses his job in the contracting import-competing industry and joins the unemployment pool, and I get a job in the expanding export industry and get out of the unemployment pool, the total unemployment remains the same and yet the economy has earned the gains from trade. Alas, even good economists can give bad advice. Stiglitz and a handful of populist economists seem to do little else.