

IN DEFENSE OF GLOBALIZATION

BY JAGDISH BHAGWATI

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Review by Ramya M. Vijaya



In a book targeted towards a broad, non-academic audience, Columbia University Economics Professor Jagdish Bhagwati questions the linking of globalization to deteriorating labor standards, child labor, gender inequity, exploitative practices of multinational corporations (MNCs) and environmental destruction. With impeccable credentials as a distinguished trade economist and a perspective influenced by his own Indian origin, Professor Bhagwati is in a position to provide a reasoned voice in the growing debate around globalization. Some of the arguments in the book do offer a reason to believe that the linking of globalization with all forms of exploitation is somewhat nebulous. However, the enthusiastic extolling of the benefits of globalization sometimes suffers from a lack of references to actual evidence. The book relies too strongly on the reputation of the author, and arguments sometimes resemble sermons.

The defense of globalization rests on two related arguments. According to the “Bhagwati Hypothesis,” poverty and exploitation of workers, children, or women is principally linked to the lack of opportunities for economic growth. To the extent that increased economic contact between countries creates new opportunities for economic growth, it can reduce this exploitation. The expectation that the increased integration will indeed create greater opportunities comes from the economic principle of comparative advantage and gain from specialization. As countries concentrate on producing what they are best at, and buy other products from cheaper foreign sources, costs are reduced globally. This cycle of lower costs creates greater demand, greater profits and consequently results in higher investments, new jobs, and growth. On the other hand, the cycle also blocks trade among countries that missed the opportunity to lower costs.

Viewed from this perspective, the new jobs created in export sectors of developing countries represent an opportunity to break the cycle of poverty. Therefore, protests against the low wages, and the sweatshop conditions associated with jobs at that wage level, represent at best, misplaced compassion.

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Similarly multinational corporations may be motivated purely by the profit motive as they shift their operations to take advantage of the low wages in developing countries. But Bhagwati, citing empirical evidence, states that multinational jobs, on average, pay up to 10 percent higher than the local alternatives. In that case the multinational employment cannot be viewed as exploitative but as a growth opportunity driven by low costs.

However, the existence of a positive correlation between trade-growth and lower poverty has often been questioned within the economics profession. Lack of supporting infrastructure often prevents developing countries from focusing on the right specialization. Bhagwati himself alludes to the increased insecurities associated with producing for the global market, rather than the more stable and predictable local one. Empirical studies indicate that, while some countries with freer trade policies do experience higher growth rates, there are others that do not. Bhagwati acknowledges this fact merely in passing, and his general lack of detail about the references that support his argument leaves one unconvinced of the final pronouncements of the positive relationship between trade and growth. In fact, for a profession that is famous for number crunching, there are very few numbers cited in the book.

The book gets more interesting when it acknowledges that, due to the increased volatility of the global, versus local, market, globalization needs to be properly managed in order for the benefits of participating in a global economy to be truly realized. The emphasis on country-specific management is particularly appealing. Whether it is a question of developing measures to cope with increasing insecurity, or setting environmental and labor standards, Bhagwati argues that a diversification of such standards is necessary to reflect the different priorities of countries at different stages of development. The idea is that the trend towards excessive global policy coordination through bodies like the World Trade Organization (WTO), provides a platform for dominance by interest groups from powerful countries.

Chapter 12, for instance, provides an example of how forums for policy coordination have at times been hijacked by powerful lobby groups to the detriment of poorer nations. The inclusion of a common, mandatory intellectual property regime in the WTO is described as a “capture” of the WTO by the powerful global pharmaceutical lobby. The excessive nature of the protection not only raises the price of drugs beyond efficient economic levels but also prevents the development of low-cost manufacturing facilities in Brazil and India.

Interestingly, Bhagwati argues for a role for the growing civil society movements, which are often viewed as being at the forefront of the attack on globalization. He asserts that, “[civil society groups], reflecting national mobilization, values, culture, and political sensibilities, offer opportunities for better governance to manage globalization.” Particularly in instances where corporations are

monitoring exploitative practices, thus propagating the phenomenon of corporate social responsibility, civil society groups' "micro-level knowledge" of social issues can be leveraged in important ways.