

## Economic Forum

## In defense of globalization

One of the main points of contention surrounding globalization is whether the flow of technology, skills, culture, ideas, news, information, entertainment, and people across borders consigns many parts of the world to grinding poverty. On February 18, Jagdish Bhagwati (Professor, Columbia University), in discussing his new book, *In Defense of Globalization*, took on the skeptics, arguing that, when properly managed, globalization is the most powerful force for social good in the world today. The venue was an IMF Economic Forum moderated by Raghuram Rajan (Economic Counsellor and Director of the IMF's Research Department) and with commentary by Daniel Yergin (Chair, Cambridge Energy Research Associates and author of *The Commanding Heights: The Battle for the World Economy*).

“The principles of free trade are ones that almost every economist subscribes to,” Rajan said, “but paradoxically, they are very hard to convey to the lay public.” In introducing Bhagwati, Rajan added that “it is difficult to convince people of the merits of free trade, which is why every generation needs its champion—an economist who stands up for the principles and talks to the lay public in a lucid language about its merits.”

His new book, Bhagwati explained, explores the concerns of antiglobalization critics—those who, as he noted, want to “drive a stake through globalization, who reject multinationals on principle.” He added that “when people say that globalization needs a human face, they must mean it lacks one,” and that “globalization is handicapping them, rather than advancing them.” Bhagwati argued that, on balance, globalization does have a human face. This, he said, is evidenced by studies that have shown that trade—a major element of globalization—increases prosperity. More than any other country, globalization has benefited the United States, where increased trade helped create nearly 35 million new jobs over the past two decades.

## Justified worries?

Given these accomplishments, then, why is the outsourcing of some white-collar jobs to India or the Philippines “a major issue in this country and not in Britain, for example, or not in European countries”? Why does the United States “always get into a funk”? Part of the answer lies in the misperception about the number of jobs transferred through outsourcing. In reality, Bhagwati said, the number outsourced is

minor compared with the number of jobs in the system. In a highly competitive system, if export industries do not reduce their cost levels to the absolute minimum, they will not be able to compete with those firms that are outsourcing or buying the cheapest imports. “Okay, we are taking 10 jobs away by buying services from abroad,” he said, “but we are saving 90 jobs in the firm because the firm survives.”

Rajan wondered whether public opinion has shifted in the United States, because previously nontraded goods and services are increasingly becoming traded. In the past, he said, individuals working in nontraded industries supported free trade. Now, when doctors and accountants see that their jobs are at risk—however small the job losses—are they shifting to the other side of the debate? Bhagwati said that the answer is not entirely clear because many of these same individuals are also exporting medical, accounting, and legal services.

In Bhagwati's view, U.S. concerns about trade liberalization have cultural roots. The system in the United States “is based on competition much more than any other system.” In this environment, he said, the desire to be number one is very important. When the Detroit auto industry faced intense competition from the Japanese, it “exploited that cultural reality in this country very well.” The same was true more recently, under the North American Free Trade Agreement (NAFTA), when the United States “was petrified that it would be cleaned out by competition” from Mexico's labor-intensive exports.

Bhagwati also related these fears to the lack of institutional support for the losers in the United States, both at the state and familial level. The fear



Left to right: Raghuram Rajan, Jagdish Bhagwati, and Daniel Yergin discuss the merits of globalization at the IMF Economic Forum.

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of being underemployed or unemployed is much greater in the United States than in countries with advanced welfare systems. A traditional safety net—family institutions—is of little help, too. There is no extended family support, and not too much is expected of one another during times of stress. In view of all this, he argued, the United States may “need overcompensation rather than undercompensation from the state” compared with other countries. “Institutional support, even if it’s inefficient, has to be there.”

### Finding appropriate policy responses

While many antiglobalizers concede that globalization “increases the size of the pie,” they also claim that it has injurious social implications, such as environmental degradation and child labor. “Many of these evils are inherited over the centuries, and there are deep-seated causes in history,” Bhagwati explained, but the relevant question for us today, from a policy point of view is how to accelerate the fulfillment of the social agenda.

His concern was that in the United States, particularly, and among labor unions—including the International Confederation of Free Trade Unions—trade sanctions are often advocated as a means to advance the social agenda, the argument being that some countries’ lax labor standards or use of child labor amounts to unfair competition. “NAFTA,” he said, “was the starting point of the corruption of the trade issue with all these extraneous issues.”

Bhagwati questioned whether imposing trade sanctions to redress nontrade concerns is the best policy option. Because it is very difficult for poor countries to “throw stones at big ones,” such an asymmetrical response becomes resented and counterproductive. Moral suasion and boycotts, he argued, can be much more effective in advancing social agendas. At the same time, Bhagwati called upon international organizations to provide poor countries with adjustment assistance to help them cope with the downsides of trade liberalization. “The advanced countries have been doing it ever since Kennedy’s time,” he said, adding that “every trade act has had trade adjustment assistance drawn out.” Bhagwati also felt that the transition to a more open trading regime should be managed with caution and that the speed on developing or improving policies to meet social agendas should be accelerated.



Demonstrators protest at a November 2003 meeting of the Free Trade Area of the Americas in Miami, Florida.

### Passing the test

Globalization excites such fiery passions, said Daniel Yergin, because “it is shorthand for change, much of it disconcerting and even controversial. It is central to issues like global poverty, the environment, but also genetically modified foods, Hollywood movies, shifts in jobs, big companies, the role of the IMF, competition, and restructuring.” There is a sense, he added, that in a more globalized world, competition and the pressures that come with it are more intense.

The search for facts, figures, and the truth is useful, but there is also, Yergin cautioned, a need to challenge the myths about globalization before they become part of the lingua franca. The fundamental question that prompted his own book, *The Commanding Heights*, was why the world has moved from an era in which government sought to seize and control the commanding heights—the strategic sectors of the economy—to an era in which ideas of trade, competition, deregulation, and privatization have captured a large part of the commanding heights of world economic thinking, and he welcomed Bhagwati’s great clarity in defending globalization. One of the great tests of globalization is what it can do to reduce poverty, he said, citing Asia’s success over the past 30 to 40 years in achieving higher growth rates and raising per capita incomes as one of the best examples of the benefits of expanded trade. ■

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The webcast of the discussion can be accessed at the IMF’s website ([www.imf.org](http://www.imf.org)). *In Defense of Globalization* by Jagdish Bhagwati was published by Oxford University Press.