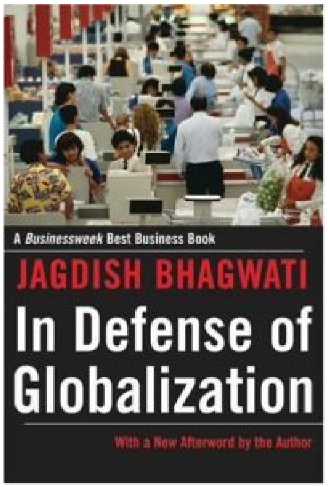

Book In Defense of Globalization

Jagdish Bhagwati
Oxford UP, 2007
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Recommendation

Jagdish Bhagwati is a true believer in the righteousness of international trade, and in this pro-globalization work, he takes a tone of nearly evangelical fervor. This tactic is likely to please those who agree with him, but it's unlikely to win over sceptics. Bhagwati makes no attempt to hide his disdain for the patchouli-scented protesters who disagree with him, and he spends much of this book serving up their flimsiest arguments and then knocking them down. Of course, he also offers plenty of persuasive points, such as a review of research showing that multinationals that set up shop in poor nations pay more than their workers would receive from other employers. At his worst, Bhagwati makes the reptilian argument that mothers who leave behind their children for jobs in rich countries are simply making a logical choice, never mind the wrenching emotions that accompany such a move. At his best, he advocates for a safety net in poor nations and for a kinder, gentler form of globalization. *BooksInShort* recommends this book to readers seeking an in-depth study of the pro-globalization mind-set.

Take-Aways

- Critics paint globalization as "unfair trade" and "a race to the bottom" that hurts workers.
- However, no objective evidence indicates that globalization kills jobs in rich nations.
- Antiglobalization advocates spread inaccurate information about trade. For instance, reports of 15,000 child slaves on African cocoa plantations proved false.
- Critics say globalization exploits workers who work for cents per hour on luxury items that retail for hundreds of dollars.
- In fact, multinationals raise wages in the nations where they set up factories.
- Multinationals don't pollute as much as host countries would allow or treat workers as harshly as local laws would allow.
- Improving on the generally positive aspects of globalization would add to its benefits.
- International institutions should offer compensation to those whom globalization harms.
- Trade liberalization should unfold at a measured pace to prevent economic shocks.
- US wages have stagnated not because of globalization but because technology and increased productivity keep pay levels down.

Summary

Globalization and Its Discontents

Economic globalization – the increased interconnectedness of the world's economies – is a topic that's guaranteed to inflame passions. Proponents see globalization as a force for positive change throughout the world. Skeptics invariably use phrases such as "unfair trade" and blame profit-hungry corporations for spreading poverty and pollution. When antiglobalization activists mobilize to rail against globalization, they invariably win significant media attention. Any time there's an international free trade meeting, you can count on seeing a throng of youthful protesters who perform for the cameras. Intriguingly, rich nations, not poor countries, are the most likely to engage in hand-wringing over the spread of economic globalization.

> "Globalization...has become by now a phenomenon that is doomed to unending controversy, the focal point of always hostile passions and sometimes violent protests."

That's not to say globalization is perfect. International trade's economic shifts often create unintended fallout. Consider the example of the shrimp farms that sprang up in India, Southeast Asia and Latin America to create livelihoods for the poor. These farms released chemicals that harmed surrounding mangroves and damaged the ability of traditional fishermen to catch fish in nearby waters. Imposing a "polluter tax" on shrimp farmers would compensate those who lost money due to the farming.

> "Globalization promotes democracy both directly and indirectly."

Governments should manage the downsides, but not end globalization altogether, as its opponents want. Driven by fear, critics think that globalization causes unemployment, yet no evidence exists to show that jobs have disappeared in the US and UK because of globalization. In truth, unpleasant side effects like those caused by the shrimp farms are rare and manageable. The "fundamentally benign" effects of globalization don't create economic insecurity. Critics who point to wage stagnation in the US in recent decades are wrong to blame globalization for that trend. The real culprit is technology – the technical advances that have allowed machines to replace human workers. Productivity gains, not globalization, create downward pressure on wages.

Critics Exaggerate Globalization's Dark Side

Opponents of globalization continue to play up the dark side of international trade. For instance, they spread rumors that 15,000 child slaves in Mali and the Ivory Coast produced chocolate consumed in the rich world. But *The New York Times* found no evidence that large numbers of child slaves worked on cocoa plantations. In fact, most of the children working on cocoa plantations were the offspring of the plantation owners or knew the owners, and many were 15 to 17 years old. This episode showed how eager opponents of globalization are to believe far-fetched tales about the underbelly of international trade.

> "The truth is that globalization...only accelerates the reduction of child labor and enhances primary school enrollment and hence literacy."

It is true that children are being exploited in poor nations. The International Labor Organization estimates that some 100 million to 200 million children younger than 15 are working. But don't fault globalization for their plight; in fact, globalization reduces child labor. Parents whose earnings improve as a result of international trade are more likely to enroll their children in school and keep them out of the labor force. Simply legislating against child labor doesn't work. The mere threat of a US law banning imports made with child labor led Bangladeshi garment factory owners to fire 50,000 children, some of whom became prostitutes to replace their lost income.

> "The idea of the global care chain as a chain that binds rather than liberates is almost certainly a wrongheaded one."

The fragility of families is a common theme for critics of globalization. For example, sociologist Arlie Russell Hochschild argues that "global care chains" harm families in the developing world. Leaving their own children to become maids or nannies for well-to-do families in the US and Europe, Hochschild and others fear, forces women from poor countries to displace their maternal love to strangers. This theory ignores the importance of extended families in the developing world, where female relatives often take active roles in child rearing. And it downplays the power gained by the absent mothers, who earn money and in some cases escape abusive husbands.

> "The fearful notion that the world's many cultures are doomed to be buried under an American avalanche also ignores the fact that other cultures are doing very well indeed, and even exporting their own artifacts and products to others around the world."

Economic globalization unquestionably is a force that spreads democracy and prosperity. Yet its opponents don't see it this way, and they tap into a deep vein of suspicion. Consider the 1999 razing of a McDonald's under construction in southwestern France. A group of farmers tore the building down, drawing cheers in the media. The symbolism appealed to two strains of modern thought: "anti-Americanism and antiglobalization." But McDonald's marches on: France is the chain's "third-largest market in Europe." Yet one sociologist noted that French consumers are so sheepish about patronizing McDonald's that they insist, when questioned in the act, that this visit is their first and last. Ironically, even as many fear American cultural domination, America itself is becoming increasingly bilingual, thanks to a wave of Spanish-speaking immigrants. While anthropologists consider the spread of the dominant culture as a threat to smaller, more fragile societies, economists take a different view: They think the true threat is that indigenous cultures will miss out on the benefits of globalization.

In Truth, Globalization Is "a Race to the Top"

Labor unions and other opponents of globalization typically point to "a race to the bottom" as jobs move from America to Mexico, China, India, and other nations with lower wages and looser regulations. Supporters of free trade have a different view. They see "a race to the top," in which workers in poor countries attain new levels of prosperity. Even liberal economist Paul Krugman acknowledges that trade with poor countries has little effect on American workers' wages. And scant evidence exists to support another objection to international trade: that Western employers move to nations with fewer labor protection rules. Large corporations steer clear of the reputational damage they would incur if they were caught mistreating workers or casually polluting developing nations. With ever-watchful NGOs and media scrutiny, multinationals take pains to behave responsibly.

> "The case that globalization, and in particular trade integration, contributes to devastation of the indigenous cultures...is unproven."

Critics lament that multinationals exploit workers in poor nations, contrasting, for example, the $190 price tag on a Liz Claiborne jacket with the 90 cents an hour paid to the worker who sewed it. Or they point to basketball star Michael Jordan's huge remuneration from Nike and compare it to the pittance earned by Nike's workers overseas. Neither of these oft-cited comparisons holds water: The wage paid by Liz Claiborne reflects only a small part of the cost of the $190 garment. Costs for materials, distribution, tariffs, marketing and unsold inventory add to the final price. And Nike's advertising budget bears no relation to the wages paid to the makers of their shoes. Both companies face cutthroat competition, and while they are profitable, neither is raking in huge profits on the backs of exploited workers.

> "The multinationals...cannot afford to be seen to dump dangerous effluents into the waters or into the air or treat their workers badly."

More relevant is how much employees of multinationals receive compared to what local jobs pay. Several studies show that multinationals pay about 10 percent more than local employers in poor nations. In the late 1990s, Vietnamese workers earned about twice as much working at foreign-owned companies as at Vietnameseowned enterprises. While critics paint multinationals as exploitative, the rules of supply and demand dictate that multinationals' jobs can only favor workers in poor nations. By boosting demand for workers, multinationals raise wage levels in the countries where they do business. The critics wrongly assume that every foreign-owned factory is a sweatshop. And sweatshops exist even in developed nations due to absent regulation; note the presence of more than a few sweatshops in New York City's garment district.

> "By adding to the demand for labor in the host countries, multinationals are also overwhelmingly likely to improve wages all around, thus improving the incomes of the workers in these countries."

Environmental regulation is another hot button for globalization's detractors. Surely, they argue, multinationals move overseas largely to escape pollution rules in the developed world. Yet critics often seek to impose their own vague norms on multinationals. Unlike laws, which tend to be specific, these norms often depend on selective interpretation and therefore are nearly impossible to follow. And weak regulations in poor countries aren't always what they seem. For example, the developed world has banned the use of the chemical DDT. But in India, where malaria remains a threat, the health benefits of DDT are thought to outweigh the chemical's ecological harm. So an antiglobalization activist who chides a multinational for working in a nation that allows the use of DDT might not paint a complete picture.

Managing the Ill Effects of Globalization

If badly managed, international trade can exert a deadly economic force, as evident from the Asian crisis of the late 1990s. After a spate of international investment, nations such as Indonesia, Malaysia and the Philippines saw their currencies crater, their stock markets collapse and their economies shrink. Safeguards to slow the transition to globalization and to strengthen banking structures might have averted the meltdown.

> "It is not sufficient to say that, by and large, globalization advances both economic and social agendas."

Managing globalization can be complicated for governments. For instance, regulating short-term capital flows is more complex than regulating trade. And immigration also presents two sides of a coin: Compare the desperate workers sneaking into the US to perform low-paying tasks with the significant immigration of highly educated scientists and engineers who attend graduate schools in America and then choose to stay.

> "The obvious candidate for [financing adjustment assistance] is the World Bank, which should put its money where its pro-globalization mouth is."

Globalization's tide generally lifts all boats, but some boats are swamped. Inevitably, some workers in poor countries will lose their jobs as a result of trade liberalization, and for them, globalization carries high stakes. Laborers in developing nations should receive "adjustment assistance" of the type that workers in the developed world demand. For instance, when Pennsylvania steel workers lose their jobs to lower-cost producers in Korea or Brazil, the government customarily provides extra unemployment benefits and money for job training. The governments of poor countries are ill-equipped to provide this help, so the pro-globalization World Bank and other international institutions should fund such adjustment assistance.

> "If what I have written so far has been read with care, it should be clear that, in many ways, globalization will yield better results if it is managed."

Farmers in less-developed countries, especially in Africa, are particularly susceptible to the vagaries of international trade and therefore should benefit from organized adjustment assistance. Agriculture is prone to spikes in supply and demand: Underproduction of a crop causes its price to rise, leading farmers to grow more of the crop. But that creates a glut, pushing prices down and bankrupting those who had borrowed and invested to ramp up production. Fewer harvests spur prices to rise and the cycle to begin again. Peasant farmers in developing nations don't have the means to hedge their risks against price collapses, and their often dysfunctional governments can't meet their needs, so it's up to the international community to create some form of financial aid that keeps these farmers and their families from starvation. Other strategies for helping formerly isolated nations make the transition to globalization include:

- **Slow transitions** – Free-market purists argue for speedy transitions from state-run systems to capitalistic, internationally integrated economies. Sometimes, as in the case of Poland, this "shock therapy" works well, but in Russia, chaos ensued. While globalization is the best solution in the long run, rapid moves to free trade often create layoffs and other economic turmoil, which in turn lead to political unrest and a pushback against trade liberalization. Developing economies that seek to integrate can't choose a one-size-fits-all solution, so policy makers should take their time.
- **Job security for workers, not for positions** – Unions are infamous for demanding security for specific jobs. But in an era of rapid technological change, it makes little sense to protect a soon-to-be-obsolete task. Guarantee security to individuals if they are willing to learn new skills that prepare them for new jobs. Unions should require their members to attend classes outside of work for a few hours a week.
- **Less-specific education** – Universities, community colleges and vocational schools place too much emphasis on specialized training, and not enough on "general technical education." In a rapidly evolving labor market, workers no longer can afford skills that might not be useful in a few years.
- **A "Gray Peace Corps" –** Nations of the developed world should establish a Peace Corps of retired doctors, teachers, nurses and engineers who each spend a few years imparting their knowledge in places like Africa, which faces a huge skills deficit.

About the Author

Jagdish Bhagwati is a professor at Columbia University and a senior fellow in international economics at the Council on Foreign Relations.