



# JAGDISH BHAGWATI

# In Defense of Globalization

*"This is the book that everyone has been waiting for. Bhagwati thoughtfully considers the arguments of the anti-globalization movement and shows the peril they pose to world development."*

—GEORGE AKERLOF, Nobel Laureate in Economics

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**JAGDISH BHAGWATI**

A Council on Foreign Relations Book

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*For  
Padma  
&  
Anuradha*

*for affection and indulgence*

## Preface

Does the world need yet another book on globalization? Not a day goes by without impassioned authors and activists, whether anti- or pro-globalization, putting their oars into these agitated waters. Magazines and newspapers also write incessantly on the issue, and polls are taken and discussed on why there is “global rage” or why, as it happens, many support the process, especially in developing countries.<sup>1</sup>

But when all is said the fact is that we lack a clear, coherent, and comprehensive sense of how globalization—and I refer to economic globalization (which embraces diverse forms of international integration, including foreign trade, multinational direct foreign investment, movements of short-term portfolio funds, technological diffusion, and cross-border migration)—works and how it can do better. There are evidently many who think that globalization may be economically benign, increasing economic prosperity in the conventional economic sense of enlarging the pie, but that it is also socially malign, that it diminishes, not enhances, the war on poverty, the assault on gender discrimination, the protection of culture both indigenous and mainstream, and indeed much else. The majority of those who agitate seem to agree on one thing: the rapaciousness of multinational corporations, which they believe are the principal beneficiaries, and the main agents—the B-52s, as I call them in this book—of this socially destructive globalization.

Far too often they produce “gotcha” examples (which I describe later), with fears masquerading as evidence. But then their pro-globalization opponents who refuse to buckle under this assault also fail to produce a concerted and total defense, based on a systematic examination of these contentions and concerns that builds up to a vision of the global system that is profoundly more optimistic yet suggests ways to make this globalization even better.

So, for the most part, we have fierce opponents locked in combat, but each side without a constructive blueprint for globalization. Where we need a total war, we instead have combatants engaged in battles over fragmented fronts. Each warrior reminds us, as Dr. Johnson once said with characteristic wit, of the pedant in Hierocles who, when he offered his house for sale, carried a brick in his pocket as a specimen! In this book, I offer a view of the whole house.

I focus for intensive analysis in Part I on understanding the anti-globalization movement and defining its concerns, while analyzing the growth of non-governmental organizations that play a principal role in the anti-globalization phenomenon and can play an important role in the design of appropriate governance to improve outcomes from globalization. In Part II I consider the social implications, on different dimensions such as gender issues and poverty, of trade and direct foreign investments (by corporations), concluding that they are, generally speaking, benign—that is, that globalization has a human face. I conclude therefore that the concerns of the more thoughtful of the anti-globalization critics, that economic globalization has adverse social implications and therefore that globalization lacks a human face, are mistaken.

In Part III I consider separately other facets of economic globalization: short-term capital flows and the movements of people across borders. Short-term capital flows, which broadly consist of transactions in stocks and related financial instruments for short-term gains as distinct from direct equity investment by enterprises for long-term gains, and human movements across borders (legal and illegal, voluntary or forced by crisis and circumstance) are in fact two principal forms of economic globalization that raise a number of difficult questions, some similar to and several others different from the ones on which I concentrate. And they deserve attention in a book that is addressed to globalization on a broader scale than just trade and direct foreign investment.<sup>2</sup>

In Part IV I consider the design of institutional changes, both domestic and international, that are necessary to make the generally good effects of globalization even better. In this analysis also I part from the anti-globalization critics: the appropriate governance—that is, institutions and policies—that goes with a globalization that is seen as having a human face is very different from that which attends a globalization that is seen as lacking a human face.

In short, I argue that the notion that globalization needs a human face—a staple of popular rhetoric that has become a dangerous cliché—is wrong. It raises a false alarm. Globalization *has* a human face, but we can make that face yet more agreeable.

This book is the culmination of intense work over the last two years. I have written and lectured about globalization as my ideas took shape.

But this work remains the full-bodied development of my ideas and my vision concerning globalization over many years of academic reflection and policy experience. I have propagated these views in my work two years ago as special adviser to the United Nations on Globalization, where Secretary General Kofi Annan now seems to lean more toward the view that globalization is part of the solution, not part of the problem, but that we do need institutional changes and support mechanisms to smooth out its occasional rough edges.

I have developed a number of debts in writing this book. Chief among them is to the Council on Foreign Relations, where Leslie Gelb, Larry Korb, and Theo Gemelas have provided excellent support. Bowman Cutter, who chaired a study group that discussed drafts of different chapters, has been a source of ideas, and I am greatly indebted to him indeed. I have also profited from the writings, ideas, and comments of Robert Baldwin, Sheri Berman, Magnus Blomström, Judith Bruce, Steve Charnowitz, Vivek Dehejia, Arthur Dunkel, Dan Esty, Gene Grossman, Carl Hamilton, Blair Hoxby, Douglas Irwin, Pravin Krishna, Robert Lawrence, Assar Lindbeck, Robert Litan, Patrick Low, Pradeep Mehta, Sir James Murray, Arvind Panagariya, the Swedish trade minister Leif Pagrotsky, Jairam Ramesh, Dani Rodrik, Kenneth Roth, John Ruggie, André Sapir, Manmohan Singh, Bo Södersten, T. N. Srinivasan, Alan Winters, and many others. A work on this canvas cannot be written without standing on the shoulders of many.

I owe a great debt to Tim Bartlett, my editor at the Oxford University Press. His careful and searching comments and suggestions have made my writing more informed by evidence and examples even while maintaining lucidity and accessibility.

Research assistance was provided by Olivia Carballo and Tanya Finnell, successively my research associates at the Council on Foreign Relations. Olivia started the book with me until she left for the London School of Economics in the fall of 2002, leaving me nostalgic about her good humor, unflagging enthusiasm, and keen grasp of the issues I was addressing. Tanya took over a year ago and has assisted me hugely with her enormous intellectual curiosity and her amazing ingenuity in tracking down sources and providing valuable editorial and substantive suggestions as the book began to acquire final shape. I cannot thank them enough.

Niah Shepherd, Michael Punzalan, and Adam Heal undertook research on parts of the book. Bikas Joshi, Jennifer Manuel, and Rica Asuncion have also provided helpful research support on specific issues. I am indebted to all of them.

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I

**Coping with  
Anti-Globalization**



# 1

## Anti-Globalization: Why?

Globalization first became a buzzword. Davos and the *New York Times* columnist Thomas Friedman celebrated its virtues, its inevitability. But then came the anti-globalizers. Globalization then became a more conventional four-letter word. The Ruckus Society and the French sociologist Pierre Bourdieu proclaimed its vices, its vincibility.

As this dialectic has unfolded, it is tempting 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. It 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 move further into the new century. The reasons 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.<sup>1</sup>

What is the globalization that is in contention? Globalization can mean many things. Here, however, I plan to focus exclusively on *economic* globalization; indeed, that is what I shall mean when I simply say “globalization” throughout this book. Economic globalization constitutes integration of national economies into the international economy through trade, direct foreign investment (by corporations and multinationals), short-term capital flows, international flows of workers and humanity generally, and flows of technology: phenomena defined and treated more fully below.

Economic globalization is the favored target of many of the critics of globalization. It is distinct from other aspects of globalization, such

as cultural globalization (which is affected, as I shall discuss in Chapter 9, by economic globalization) and communications (which is among the factors that cause the deepening of economic globalization).

Why are the critics of globalization agitated? What bothers them? There are two main groups that need to be distinguished, and I shall develop this distinction and build systematically on it below. First, there is a multitude of hard-core protesters who have deep-seated antipathy to globalization. They come from different intellectual and ideological directions and do not all share the same ideas and sentiments. But many buy into a linked trilogy of discontents that take the form successively of an ethos composed of an anti-capitalist, anti-globalization, and acute anti-corporation mind-set.<sup>2</sup> These views are interlinked because globalization is seen as the extension of capitalism throughout the world, whereas multinational corporations are seen as the B-52s of capitalism and its global reach.<sup>3</sup> Beyond understanding where their discontents come from, as I do presently, there is little that one can do to enter into a dialogue with them.

Second, however, there are the critics of globalization whose discontents are well within the parameters of mainstream dissent and discourse. In their essence, these discontents translate into the arguments that economic globalization is the cause of several social ills today, such as poverty in poor countries and deterioration of the environment worldwide. These critiques, which amount in my view to a gigantic non sequitur, are of a very different order from the hard-core criticisms, which reflect implacable hostility to globalization. The former are susceptible to, indeed invite, reasoned engagement. These critiques need an extended and careful response. I provide that in several chapters in Part II by demonstrating that, in fact, the various social causes that we all embrace, such as advancement of gender equality and reduction of poverty, are advanced, not set back, by globalization.

Am I leaving the prince out of *Hamlet* by not giving center stage to the critiques of international institutions such as the World Bank (which concerns itself with development), the International Monetary Fund (dealing with stabilization of economies in the grip of financial crises), the World Trade Organization (which oversees the world trading system and its progressive liberalization), bilateral aid agencies such as the U.S. Agency for International Development, and trade treaties such as the North American Free Trade Agreement (NAFTA)? These institutions have often been targeted at their annual meetings by demonstrators who object to their “conditionalities” for assistance or their ambition to liberalize trade, depending on the institution being attacked.

But these demonstrations are mainly a clever guerrilla tactic, as I argue later: with thousands of newspaper and television reporters present, violence and ingenuity in street theater make a splash around the world. The specific critiques are what need to be addressed, rather than sweeping condemnations. These I do take seriously and examine fully at different places in the book as they relate to areas of concern, such as in Chapter 7, when I consider the complaint of some women's groups that International Monetary Fund (IMF) conditionalities have harmed women.

I also consider, in appropriate places throughout the book, the charge that globalization is a result of the iron fist of conditionality (i.e., pre-conditions for getting aid or trade opportunities) wielded by bilateral and multilateral aid agencies. Whether the conditionalities are effective and binding (as the critics believe) or are loose and often evaded (as I argue) and whether trade liberalization is "forced" by these institutions (as is alleged) or is often embraced by nations because they believe it is good for them to abandon costly protectionism (as I contend) are matters that I deal with, particularly in Chapters 16 and 18.

As for the charges of hypocrisy, double standards, and unfair trade that are passionately leveled today at these international institutions and also at the rich nations—in particular, that they maintain protection for themselves while they force others into free trade—these charges have been made by reputable non-governmental organizations (NGOs) such as Oxfam and by the World Bank in its occasionally desperate get-them-off-our-backs mode. But, as I have written extensively elsewhere with documentation and only sketch in this book, these beliefs and allegations are often little more than rubbish.<sup>4</sup>

In particular, the average industrial protection in the poor countries is still significantly higher than in the rich countries; the chart in Chapter 16 shows this clearly. That chapter also considers the reasons, which have nothing to do with hypocrisy, why protection in the rich countries has not been reduced more on labor-intensive industrial products. In agriculture, there are extensive tariffs in the importing poor countries as well. Moreover, significant subsidies, often through heavily subsidized inputs such as water and electricity, can be found in agriculture even in poor countries such as India and Mexico.

Besides, only an ignoramus would coach the poor countries to talk of "unfair trade," for this is the code phrase used by the protectionists in rich countries to cut off imports from the poor countries by alleging that they obtain their competitiveness in ways that amount to unfair competition and unfair trade. Trade experts of all political persuasions have spent decades exposing the cynical use of this phrase and decrying

its usage, but then in come the know-nothings, who persuade the unsuspecting poor countries to embrace it.<sup>5</sup> When it comes to the two sets of nations, poor and rich, battling it out as to who is the worse unfair trader, do not be surprised when the poor nations find themselves at a disadvantage.

If all this were of no relevance, I would grin and bear it. Regrettably, many of the leaders in the poor countries have now come to believe that the trading system is unfair and hypocritical, and therefore they can focus on others' protectionism and forget about their own. That their protectionism, currently at average levels higher than in the rich countries, can only hurt their own prosperity and therefore the war against poverty will be demonstrated in Chapter 5. Causing harm to the poor countries cannot have been the intention of Oxfam, yet the road to hell is paved with good intentions. Oxfam knows a little, but not enough, about trade policy, I am afraid, and I have been moved to remark, not just in this instance, that mission creep, even by non-creeps, is often not a good idea.<sup>6</sup> Their overreach subtracts from the great good that they have done when they concentrate on what they do best.

So much then for conditionalities, double standards, unfair trade, and hypocrisy. Let me turn instead to the central tasks that I have set out to explore in this book: the sources of anti-globalization sentiments, the concerns that globalization lacks a human face, the reality that it does have one, and the governance that must accompany globalization once one recognizes that it is generally a benign force for social agendas.

### **Exaggerating the Perils of Globalization**

At the outset, it is necessary to recognize that the perils of globalization happen to be exaggerated because of what I like to call the fallacies of aggregation.

#### ***Different Aspects of Globalization***

Recall that globalization, even in its economic aspects, has many dimensions. It embraces trade and long-term direct foreign investment by multinationals as well as flows of short-term portfolio capital whose rapidity and size have caused havoc in places ranging from Bangkok to Buenos Aires. But it also should include now-sizeable migrations, legal and often illegal, across borders. And it extends to the diffusion and transfer of technology (such as AIDS-fighting drugs) among producing and

consuming nations. Such economic globalization, in turn, is distinct from globalization, say, on dimensions such as increased international accessibility of print and other media (e.g., Internet access to newspapers and magazines, and the reach of CNN and the BBC today) or growing enrollments of foreign students.

Yet the popular discourse on globalization has tended to blur the lines between these different dimensions and to speak of globalization and its merits and demerits as if it were a homogeneous, undifferentiated phenomenon. Indeed, recent years have seen many polls on attitudes toward “globalization,” some of which I discuss below, and practically all of them are marred by a failure to specify which aspect of even economic globalization they are polling the respondent about. So we have no way of finding out what exactly the respondent has in mind when she says that globalization is good for herself or for the poor or for her country.

In fact, the rot goes even deeper. In particular, in the many debates that I have had with Ralph Nader and other opponents of freer trade before, during, and after the 1999 ministerial meeting of the World Trade Organization in Seattle (which broke up in mayhem as a result of violent demonstrations by anti-globalization groups), the critics have invariably strayed into the financial crisis that devastated East Asia in the latter half of the 1990s. They argue as if the case for freer trade had been exposed as illusory by this financial crisis. But openness to trade had been at the heart of the East Asian “miracle,” whereas imprudent and hasty freeing of financial flows was at the heart of the brutal interruption of this miracle. To throw beneficial trade out of the window because financial flows have caused a crisis is surely illogical.<sup>7</sup>

The case for free trade and the argument for free capital flows have important parallels. But the differences are yet more pointed. The freeing of capital flows in haste, without putting in place monitoring and regulatory mechanisms and banking reforms, amounts to a rash, gung-ho financial capitalism. It can put nation-states at serious risk of experiencing massive, panic-fed outflows of short-term capital funds, which would drive their economies into a tailspin.

The freeing of trade can hardly do this. If I exchange some of my toothpaste for one of your toothbrushes, we will both have whiter teeth, and the risk that we will have our teeth knocked out by this exchange is negligible. By contrast, the proper analogy for capital flows is playing with fire. When Tarzan sets a fire to roast his kill, he feeds himself and has little to fear: a forest fire is hard to set off. But when he returns to England as the long-lost Earl of Greystoke, he can carelessly and easily set his ancestral home on fire.



Yet, manifest as this asymmetry is to any but the most ideological economists, it is a common affliction even among highly educated members of the public such as Ralph Nader. Indeed, they assume that if one is for free trade, one must be for free direct investment, for free capital flows, for free immigration, for free love, for free everything else! I must confess that while the case for free trade suffers from this fallacy, making our business of defending the merits of free trade more precarious, I myself have profited from it. Thus, when I wrote in 1998 of this asymmetry between free trade and free capital flows in the magazine *Foreign Affairs*, right after the East Asian financial crisis had broken out, alerting all to it, that turned out to be newsworthy. That I—widely complimented or condemned, depending on your viewpoint, as the “world’s foremost free trader”—had “admitted” that unfettered capital flows could be dangerous was considered to be a heresy worthy of the greatest attention. While a few others, such as my new (Columbia) colleague Joseph Stiglitz and my old (MIT) student Paul Krugman, had also registered their reservations in their own way, I was the one who became the poster boy for many who were fearful of “globalization.” And yet, in all truth, I had thought that I was saying the obvious; I had in fact never thought otherwise!

### ***The North-South Divide: An Ironic Reversal***

The debate on globalization is overlaid and overwhelmed by yet another fallacy that asserts that the disillusionment with globalization, typified by the street theater and the campus protests, is worldwide and reflects a majoritarian discontent. But this belief is not true.

In fact, anti-globalization sentiments are more prevalent in the rich countries of the North, while pluralities of policy makers and the public in the poor countries of the South see globalization instead as a positive force. This was the finding of the World Economic Forum’s extensive poll on global public opinion on globalization, carried out by the Canadian polling firm Environics International, with twenty-five thousand urban respondents in twenty-five countries, and presented at the WEF’s annual meeting in New York in early 2002.<sup>8</sup>

I call this an ironic reversal since the situation was exactly the other way around in the 1950s and 1960s. At that time the rich countries were busy liberalizing their trade, investments, and capital flows. They saw international integration as the magic bullet that would bring them prosperity, and it did produce the golden age of rising tides that lifted all boats until the OPEC-led explosion of oil prices unsettled the world