

KEYNOTE SPEECH

Globalization: The Question of "Appropriate Governance"

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It is always a pleasure to be honored by scholarly bodies and organizations. But I find this Prize particularly rewarding since it comes from an organization that belongs to the growing civil society around the world. I am also delighted that the Prize honors the memory of a significant Korean personality, held in high esteem in your great country. Korea has earned a proud place in the world community of nations, having transformed itself into an OECD-level country from a position where it was hardly on the radar screen at the beginning of the postwar period. Its recent financial crisis has once again shown the enormous capability of your people to recover, with determination and an unusual combination of personal sacrifice and collective endeavor, from near-ruin, thus earning our admiration twice over.

The organizing NGO, the Taegu Round Global Forum, has been motivated by the thought that (1) globalization has created, through the freeing of short-term capital flows, the severe dislocations that are now known as the Asian financial crisis, and that (2) civil society forces must be mobilized to resist such globalization, or at least to regulate it. I thought therefore that it would be appropriate for me to give my Prize Acceptance speech on the broad theme: how can we ensure that Globalization has a human face? In fact, in discussing this theme, I shall stress that it is misleading to assume automatically, perhaps due to fears generated by the financial debacle in Asia and elsewhere, that globalization of all kinds necessarily, or for the most part, lacks a human face; and that a proper analysis of the question requires that we

distinguish among different varieties of globalization and examine each as a largely distinct phenomenon from the viewpoint of its up and down sides.

1. Different Dimensions of Globalization

I will proceed to argue therefore, as I did soon after the Asian crisis began (and indeed I have argued this way even in earlier days so that I was not really changing my mind on the matter, as many journalists assumed, thinking that because I was for freer trade, I must have been also for free and unregulated short-term capital flows) in my well-known May 1998 *Foreign Affairs* article entitled *The Capital Myth*, that we need to distinguish among different types of globalization. A full-scale analysis of globalization must distinguish among several aspects of the globalization process. Chiefly, we must separately discuss:

- 1) International Migration
- 2) Direct Foreign Investment (DFI),
- 3) International Trade
- 4) Short-term Capital Flows.

Whereas the public debate, principally among NGO activists, tends to indiscriminately refer to all these phenomena, and the policies that often reinforce them, as "globalization" per se, the fact is that while they have similarities they also have striking contrasts, both economic and political. In fact, my 1998 *Foreign Affairs* article was aimed precisely at arguing that Free Trade and Free Capital Mobility had important differences which the IMF and the US Treasury had failed to take into account when pushing hard for Asian and other developing countries to adopt substantial Capital Account Convertibility, permitting much freer movement of short-term funds, without necessary caution and prudence and corresponding policy safeguards.

2. Appropriate Governance (including the Role of Civil Society)

I will also argue that, reflecting on these differences, we need differential approaches to managing globalization on these different dimensions. Further, we need to appreciate that this management must reflect the principles of what I call "Appropriate Governance".

The latter includes question such as, if we are to oversee and promote more humane policies on labor standards, should the appropriate international institution to address that issue be the ILO or the WTO, and should we set who will fill lacunae in existing in international institutions, e.g. by creation of a WMO (World Migration Organization) to monitor and review the worldly increase of movements of people across borders, instead of ad hoc national, bilateral. and multilateral measures to address these problems?

Appropriate governance at domestic and international levels also raises the important question: how can and should the enormous proliferation of NGOs be harnessed to support rather than oppose globalization, provided it is managed to greatly moderate, if not wholly eliminate, its downside so that it constitutes a powerful positive force for promoting well-being world wide?

3. International Migration

Let me begin with international migration. Today, we witness significant movements of people as refugees (broadly defined as people fleeing across borders, for all sorts of reasons such as civil wars, and not just for the limited reasons which are accepted narrowly today as grounds for seeking asylum), and as legal and illegal migrants.

The refugees have crossed from South to South: as when they go from Vietnam to Hong Kong or Burma to Thailand or from East Pakistan to India or from China to Hong Kong. They typically go also from South to North: as when they go from Bosnia to Western Europe or from Haiti and Cuba to the United States.

The illegal immigrant flows are not yet comparable but have also grown. These are primarily from South to North, reflecting both "push" and "pull" factors related to better economic opportunities in

the North. Of course, since the poor countries, the South, are not homogeneous in their economic well-being either, there are some flows within the South as well: e.g. from Bangladesh to India, and from Central America to Mexico (some of it en route to the United States across the Rio Grande).

The largest flows have been of legal migrants, however. These comprise both skilled workers, the subject of the wellknown and recurrent debates about the “brain drain”; and unskilled workers, who have often come under temporary gastarbeiter (European) or bracero (US) programs but have resulted frequently into “stay on” immigration.

Has globalization on these dimensions been a phenomenon or a problem? If the latter, for the “sending” or for the “receiving” countries or both? I would argue that, today, the poor countries look upon outward migration of all varieties as overwhelmingly beneficial, although in the earlier postwar period, the outward flow of skilled people was considered to be a “brain drain” and detrimental. There has been a role reversal: it is the rich countries, who were generally labour-short, who were also able to attract skilled and talented immigrants, who have now become the centers of fierce debates over the “flood of immigrants” , whether skilled or unskilled, legal and illegal.

This is a many-sided debate. My own view on the effects of cross-country migrations is that they are generally benign. Why? The poor countries (including myself in the 1960s) primarily used to worry about the “brain drain”. But this view has correctly been replaced by what I call the “diaspora model”: having your own people in the rich countries works to your advantage in many different ways whereas holding on to your people against their wishes in conditions that are not conducive to their full development as scientists and professionals is not helpful. As for the rich countries, many see the influx of the unskilled as a major problem for themselves, especially when it is a result of refugee and illegal inflows. But here too, the fears of these immigrants hurting the wages of the unskilled natives and of their becoming a huge burden

on the receiving country's public finances have been shown, in the US debate, to be grossly exaggerated, even wrong.

Here, I must say that the attitudes of the rich-country labour unions, which are lobbies rather than NGOs by conventional definitions, have generally been less than benign. Few of them have supported freer immigration, though there are shining exceptions. On the other hand, the church groups, among the NGOs, have been generally splendid: especially, one cannot forget the US churches' backing of the sanctuary movement in defense of the refugees from below the Rio Grande.

I must also add that the International Governance of migrations today is appallingly inadequate. The ILO deals with legal labour flows in some fashion; the UNHCR addresses questions of refugees (and internal displacements within nations now); practically no oversight exists in regard to policies of nations towards illegals. What we need is a World Migration Organization that oversees, monitors and feeds into the public domain systematic reviews of nations' policies regarding all types of migrations so that we see impartial and authoritative reviews of nations' entire policies towards migrants and so that those who behave in draconian fashion can be shamed into better practices suggested by the better nations' practices: a suggestion that I have made over the years.¹ The creation of such a WMO would fill a shameful lacuna in the international infrastructure of institutions today that look after issues transcending nation states and reflecting their interdependence.

4. Direct Foreign Investment

If, despite the opposition occasionally voiced against it in the rich countries (and not just from the xenophobic political parties but also from the unions and leftwing intellectuals), international migration is then a phenomenon to be generally welcomed as a benign aspect of the growing globalization of national economies and societies, to be supported by the creation of a WMO to oversee it, the phenomenon of Direct Foreign Investment (DFI) has become controversial after a couple of decades when the early postwar skepticism, even hostility, had given way to general acceptance of its benign, beneficial character for both poor and rich countries.

The poor countries were the ones which generally feared that DFI would lead to what the Brazilian sociologist called “dependencia”: the periphery depending on the center, resulting in a form of “neo-colonialism”. Alongside, there were objections that DFI would create “dualism”: enclaves that would contrast with stagnant mainland economies; or, in a more malign mode, that DFI would actually harm the mainland, e.g. through exploitation of local labour or through capture of local politicians and corruption of local governments as in the case of the ITT’s involvement in the coup against President Allende of Chile.

While my own research in those years did model ways in which such malign outcomes could arise, I believe that it is true to say that policymakers in nearly all developing countries have now shifted to a more benign view of inflowing DFI. They believe that DFI is a mutually-beneficial phenomenon; it brings in needed technology, creates employment, generates tax revenues without which programs to help the poor cannot be financed. The fear that they will subvert domestic politics has also subsided as many of the host countries have become more

¹ See, for instance my 1992 article in *The Christian Science Monitor*, reprinted as Chapter 31 in my selection of popular writings on public policy, *A Stream of Windows: Unsettling Reflections on Trade, Immigration and*

democratic, CNN etc. can ventilate abuses worldwide, and NGOs can rapidly pick up on these abuses and bring swift retribution on the offending multinationals.

Instead, rich-country labour unions as also some of the rich-country NGOs such as Public Citizen in the United States have become obsessed by the notion that outward flow of DFI is a source of harm to the working class here and, remarkably, that these multinationals “exploit” the workers (by giving them low wages) in the poor countries. These contentions are basically illogical. In the US, for example, in the 1980s at least as much DFI has come in as has gone out: focusing on the outflow and ignoring the inflow is either dimwitted or dishonest. Again, every student of multinationals knows that they typically pay a "wage premium" compared to domestic wages in the host countries: around 10%. Is paying such a premium “exploitation”? That would be a strange definition of exploitation indeed! This goes also for the charge that a “living wage” is not paid by multinationals. Are people in the poor countries working for a “dying wage” when they are paid even less than what multinationals pay with their wage premiums? Poverty is tragic; but what words can characterize and castigate adequately people in the rich countries who would protect their own turf by denying the creation of more economic opportunities for the truly poor in the poor countries by pretending that this is to these people’s advantage? Unfortunately, church groups that have little understanding of these issues have also been misled by these rich-country groups into anti-DFI attitudes and campaigns that are harmful to the world’s truly poor.

On the other hand, the attempt of corporations to enact a multilateral Code at the OECD, the so-called MAI (multilateral agreement on investment), and the insertion of TRIMs in the WTO at the end of the Uruguay Round, do raise legitimate doubts among NGOs and even some economists such as myself. Read the MAI document and you will be struck by how lopsided it

is. It speaks at great length, and in great detail, about what host countries (which are, for the most part, the poor countries in effect) cannot do. The tone of it is that of neo-imperialism: corporate rights stand supreme. Nowhere does the document really talk of host-country rights or of the obligations (including stakeholder obligations) of corporations. Unless MAI stands as a tripod, with all three elements getting full status, it is a defective document. Precisely because, with its lopsided structure in favour of corporations and hence in favour really of the rich countries whose corporations are the key players, the MAI was supposed to provide a model for the demands to put Investment into the WTO, one could not but sympathize with the NGOs who cried foul and went into an anti-corporate mode at Seattle.

My view is that Appropriate Governance on the investment questions should consist of three elements:

- MAI at the OECD should turn, in whatever pro-corporations form it takes, into a Voluntary Code; and similar Codes, with emphasis equally on host-country rights and stakeholder obligations, could be turned out by UNCTAD and other international agencies that take a more balanced view;
- The WTO should have a minimalist (mandatory) Code that confines itself to just a couple of principles such as national treatment and nondiscrimination among different investors, with possible exceptions set forth; and
- OECD countries should be urged to consider the adoption of a Mandatory Code for their own multinationals such that they are required to adopt environmental and labour-safety provisions in poor countries that they are required to uphold at home.²

5. Trade

When it comes to free trade, or rather the freeing of trade, I would argue that the early fear of it among many poor countries during the 1950s through 1970s has now been replaced by a more optimistic evaluation of trade. In other words, the view now is that trade, instead of being a threat, is an opportunity.

By contrast, the fears have moved to the rich countries. NGOs, church groups, labour unions, all march against free trade. It is assumed that trade with poor countries is driving down the wages of the unskilled in the rich countries even though, in my view, one can seriously maintain that such trade has actually moderated the fall in real wages of the unskilled that the unskilled-labour-economizing technical change would have brought about anyway.³

The more sophisticated among these new protectionists ask for “fair trade” of all kinds “before free trade”. Thus, they complain about low labour standards, inadequate environmental standards, indeed a variety of deficiencies in the foreign countries with which freer trade is desired. The demands then extend to seeking to raise these standards, extending even to the payment of higher wages (on the pretext that a “living wage” is not being paid), so that the cost of production abroad rises and competition is thus moderated through what can only be called “indirect” or “export” protectionism.

Admittedly, there are a few morally-driven groups such as Human Rights Watch which seek to advance better standards abroad. But then they fail to consider alternative ways of

² I have proposed this in The New York Times (March 24, 1993) , reprinted as Chapter 23 in A Stream of Windows, op.cit. and argued the rationale for this proposal at length in Chapter 4 (with T.N.Srinivasan) of Bhagwati and Hudec (eds), Fair Trade and Harmonization: Prerequisites for Free Trade?, MIT Press, 1996, Vol. 1

³ I have reviewed the different pessimistic arguments, and advanced my contrary thesis, in my paper, “Play It Again Sam: Yet Another Look at Trade and Wages”, in Ranis and Raut (eds), Trade, Growth and Development: Essays in Honour of T.N.Srinivasan, Elsevier Publishing Co.: Amsterdam, 1999.

advancing these agendas, other than through putting restraints on market access at the WTO through amendments such as the Social Clause, which in fact, in my view, are far more efficient. By pursuing both such agendas, and trade liberalization, at one trade institution, the WTO, these groups actually undermine both: they try to kill two birds with one stone and then miss both.

I have therefore repeatedly argued that Appropriate Governance (at the international level) requires that trade liberalization be pursued at the WTO but that these agendas be pursued pro-actively at other appropriate institutions: labour issues at the ILO, environmental issues at UNEP, children's issues at UNICEF etc. This was also the main message put out by several intellectuals, NGOs and labour unions from the developing countries, just prior to the WTO meeting in Seattle, entitled TWIN-SAL [Third World Intellectuals and NGOs –Statement Against Linkage (of labour standards to WTO)], and headed: Enough is Enough. Besides, at the domestic level, openness to trade requires the adoption of institutional change that cushions the economic insecurity and job flux that such openness either brings about or is feared to generate.⁴

Since the Bishop whose eloquent speech preceded the award of the Prize to me argued against trade liberalization at Seattle, I urge the church groups in particular to exercise caution and not to lump together the financial crises with trade liberalization and to argue against the latter simply because of the former: in so doing, they fall into a fallacy that has tragic consequences in opposing trade liberalization and thus working unwittingly to reduce prosperity and thus enhance, not reduce, misery and poverty.

6. Short-term Capital Flows

So, I argue finally that the Globalization process poses truly serious problems only in the area of short-term capital flows. I need hardly reproduce the arguments I made in my Foreign Affairs article. By now, even the IMF has accepted the notion that hasty and unregulated spread

of capital account convertibility was a principal factor in the onset of the Asian financial crisis. The notion that “crony capitalism” was the central factor in the onset of the crisis is no longer the favored explanation; and rightly so. Prudential management of short-term capital flows is going to be the name of the game.

But we cannot afford to let down the guard. The Wall Street lobbies are ever active, seeking bigger and bigger markets, and the welfare of the citizens of these poor-country markets is not their focus, despite their endless statements to the contrary. Given a chance, they will start pushing again in the direction of dismantling of any restrictions on capital flows. Only time will tell whether the prudence of the economists, or the greed of Wall Street, will win in guiding the world economy towards a better management of the short-term capital flows than we have seen so far.

7. Concluding Remarks

So, in conclusion, let me thank the many good people in Taegu and elsewhere who have deemed me worthy of this prestigious Prize. Their concerns about the management of today’s highly globalized, and increasingly globalized, world economy provide the fuel for the examination of critical issues whose solution will determine the well-being of millions of people around the world. Without their input, and their energy, and their passions, not enough would be done. Even if their voices are sometimes shrill, sometimes mistaken in their analysis and their proffered solutions, they are most important in the endless probing we must undertake to find appropriate solutions.

I have suggested tonight some better ways of thinking about the issues raised by you and others by different sorts of globalization, and have suggested solutions that require concepts such as Appropriate Governance. I hope that they aid a little in our common search for a better world.

⁴ See Chapter 1 of my book, [A Stream of Windows, op.cit.](#)

