It's time to rethink the whole question of how to live in a globalized world—and not just worry about India and China taking away jobs.
In 2004, renowned economist Jagdish Bhagwati published his highly acclaimed book, *In Defense of Globalization* (Oxford University Press). As the title suggests, Bhagwati argues strongly for globalization, but he also seeks to balance his viewpoint by considering the social implications of the phenomenon. Bhagwati, who is University Professor of Economics at Columbia University and a senior fellow in international economics at the Council on Foreign Relations, recently spoke with CIO Insight editors Ellen Pearlman and Edward Baker about his book, and about his views on the future of globalization. "Essentially, my book is not about things like offshoring, or the strict economic debate about whether outsourcing and free trade are good for us, or our workers," Bhagwati says. "What I was really interested in was focusing more on the social implications. I wanted to address those issues and the effect on gender issues, the exercise of democracy, mainstream culture, individual culture, and a whole slew of the stuff that economists can respond to. And basically I argue that globalization can actually advance these social agendas, that the complaints and the fears are not really justified."

But the growth of international trade raises other issues for Bhagwati. As he points out, "You might think something is good, but somebody else thinks it's bad. There are too many different interpretations of the same international transaction." So how do you deal with all that? Bhagwati is currently thinking about and working on ways to implement some kind of government regulation, or intervention, to come up with better answers. In the edited transcript that follows, he talks about his view of a "flat world" and the questions that still concern him.

CIO INSIGHT: How do you view globalization and the concern Americans have for their jobs?

BHAGWATI: My view differs from Tom Friedman [New York Times foreign-affairs columnist and author of *The World is Flat: A Brief History of the Twenty-First Century*]. He basically argues that the rise of India and China is so dramatic in terms of skills that we're competing with people who have equal knowledge but lower wages. And even though he's a pro-globalization guy, by talking in these terms and saying there's a flat road, he's essentially saying that India and China are coming down that flat road, so you'd better get yourself a shield and armor. He's basically celebrating the rise of these countries, because he's not an anti-globalization guy, but he's also telling us to wake up, because otherwise our jobs are going to disappear.

I think Tom is fundamentally wrong. He listens to people like my friend Nandan Nilekani, CEO of Infosys. Nilekani is a very smart guy, but he flexes his muscles—much like Popeye, except Popeye does it on spinach and Nilekani
does it on IT. Nilekani says, "We can do anything the Americans can do." Now that's true, but that's not the same thing as saying Indians will do everything the Americans can do. That's a separate economic proposition.

The developed countries still retain a huge comparative advantage. Let's look at outsourcing. What we now have, actually, is large numbers of low-value jobs being transacted on the Internet. Outsourcing of services is really the same thing as buying anything from outside—manufacturing components, for instance—but that's traditional trade. So if I start complaining about that, I'm really complaining about trade. And then there's the issue of protectionism—that inward-looking point of view that hurts India like hell—which is against taking advantage of trade. So that's not what we should think about.

Senator John Kerry also mixed it up when he talked during the presidential campaign about people just pulling up a plant from Nantucket and taking it to Nairobi. Well, that's part of the whole foreign-investment issue. You'd have to be really paranoid to think that the U.S. is losing from foreign investment. We attract almost as much as we send out. A lot of what we send out is to the poor countries. A lot of what we get is really high-value investments from places like Germany. If you go down Interstate 95 in South Carolina, there's a lot of German investment. That particular segment of Interstate 95, I'm told, is now called the Autobahn. The Germans have really lifted it up. And there are lots of examples like that.

The reason why outsourcing has become a big issue is because jobs that involve not just working with your brawn but also with your brains—semiskilled work such as call-center services, back-office operations, typing things up—can now be done elsewhere. Kinko's will actually take things to be typed to India. And people in India can call people in U.S. nursing homes ("Mr. Schwartz, it's time for your Lipitor") for 25 cents a call. That would cost $2.50 here. There would be no such job here. Mr. Schwartz would just not take his Lipitor and die. It's important to remember that some jobs are just gone. It's not that they've been transferred elsewhere; they're just gone because they're too expensive here.

That is where a whole lot of low-value, low-wage jobs are going, and that is adding to our consumer satisfaction in many ways. That is international trade in developing countries' favor. But against that, we have large numbers of high-value jobs being created here. There's no need to panic about the rise of India and China, because there's going to be a lot of trade, and both sides are going to win.

**So what does worry you?**

I want to come now to a stark scenario, which I think is a different way of looking at globalization. I don't think that as China and India develop we have anything to worry about, just for the reasons I mentioned. But what I think we need to worry about is simply the nature of global competition today, and it's not focused just on India and China.

Today there are so many countries in play all over the world. Multinationals can do good in many countries, and they absorb technology wherever they can get it. They'll go to your country rather than mine if they see some advantage in being there.

People are reading very similar books and have very similar know-how. Interest rates and capital markets are much more integrated than ever before. So a lot of cost elements have been leveled out, and in that sense you can actually begin to think in terms of operating in world markets, because the other guy doesn't have all that much of an advantage over you. The fact that you have cheaper labor is not particularly relevant. In fact, all the econometric studies show that labor cost is the least important thing when it comes to locating businesses.

"It's important to remember that some jobs are just gone. It's not that they've been transferred elsewhere; they're just gone because they're too expensive here."
Because of all this leveling down of interest rates, and because multinationals can locate anywhere, competition is fierce today. Talk to CEOs and executive directors, and I doubt you'll find anybody who's comfortable about the fact that the world is moving very fast. Maybe somebody's going to take your job, which is why there are protectionists.

Everybody fears that somebody might overtake them. Back in 1991, when I was at my daughter's music camp, I met a Silicon Valley father, and he said he was having big problems—international competition from the Koreans and the Far East. So I turned to the next parent and asked him what he did. He said, "I grow mushrooms." I said, "You really must be leading a quiet life." He said, "No, Taiwan is killing me." So everybody has somebody killing them. You look over your shoulder, and somebody's stealing your party.

I call it the Age of Flux. I call it "kaleidoscopic comparative advantage." It's not that comparative advantage has disappeared and that everything now goes to India and China, or to another country. It's that it has become so volatile. Given that volatility, everybody is now on edge.

So what can be done about this volatility?
Now if that is the situation, then, of course, workers are going to be on edge, too. Therefore, you have to rethink the whole question of how to cope with living in a globalized world. It's much more complicated than just saying we're going to prevent India and China from exporting to us or taking our jobs. If it was just that, we could say, "Go to hell. We don't really need you. We can manage by ourselves." But today, if you're in the international economy, if you want to lead a happy life, you have to be continuously coping with globalization and flux.

This is really where I think we've got to rethink the kind of social-support systems we have for people. Suppose Boeing starts going downhill. Right now it's doing well again, but it could be that Airbus steals some margin from it. Then you are going to have people who lose their jobs at Boeing. But they could get jobs at Nissan or Toyota, because those companies are expanding. You could have aeronautical engineers doing auto engineering.

We have other jobs coming up, like in medicine. Aging, for example, is creating a problem, but at the same time it offers possibilities. Take the fact that almost 15 percent of our income is now being spent on healthcare of one kind or another. If you want to think of specific specializations, there are lots of age-related ailments that are going to come up. I'm 72 and I'm beginning to get them now—myself—arthritis, rheumatism.

The real problem is this churning, and the fact that we're an aging society. If I lose my job as a professor of economics when I'm 45, and then you come and tell me there are jobs available for professors of physics, I'd say, "Get lost, you're really increasing my anguish by telling me that."

We don't have to worry about new skilled jobs. Skilled jobs are going to keep coming up, and technological change is also continuously creating jobs. Skilled people have nothing to worry about. What we do need in an aging society is for everybody to get together, particularly professional societies, and really work out optimal trajectories of transitions. If a radiologist is going to lose out and there are going to be jobs for plastic sur-
geons, how do we minimize the cost of retooling? If the American Medical Association cannot figure out how you make transitions from declining occupations to expanding ones, then some smart guys will probably work it out.

Have you seen anybody actually work this out?

No, but I have written about this recently, and I’m going to work at it now. It’s not just a matter of giving people money for two years to supplement their incomes while they’re bagging groceries and stocking shelves at the local Wal-Mart. That’s not enough. There are insurance plans now which we are experimenting with—not unemployment, but wage insurance. So if you go from a $70,000 job to, say, a $20,000 one at Wal-Mart, half of your wages are picked up for three years under an insurance program. A pilot insurance program like this was enacted in the U.S. several years ago.

So we’re working at it, but we have to work out these trajectories of transition. And for unskilled workers, because they also lose jobs, we now have to do what the old socialists who were for workers’ education used to do. We now have to improve the unskilled workers’ portfolio of assets through training. I think workers have to be educated. It’s the unions that should do that, because that will really protect workers against flux. And companies have some corporate social responsibility as well. Individual firms may not be able to do that, but I think employers’ associations, chambers of commerce and the like can. They are obviously interested in international trade. Many of our firms are international now, and if we don’t do something to facilitate coping with change, the politicians won’t be able to deliver on keeping markets open, and then you can forget about expanding further.

If you really believe globalization is a source of gain, which I do, and social advancement as well, the last thing you want is to be at one firm forever.

I think we really need a sea change, and that’s what I’ve been lecturing about quite a bit in Germany and Denmark. I think everywhere the talk is about how to cope with the changes wrought by globalization, and what is the best way to reorganize our social-support system to meet those new needs. But if we don’t do that, we’re in trouble, and I think we’ll fall behind. People have the vote, thank God, and they can actually vote you out if you don’t do something about it.

Are you optimistic or pessimistic?

I think America is resilient. I was really pleased the other day when Hillary Clinton’s chief of staff wanted me to come and talk with her about international trade. I told her, “You’re the first Democratic politician who has ever wanted to talk about it.” Increasingly, people are beginning to see that they have to talk about this, and that simply rolling along is not going to be very helpful. If the fears are real, that’s different, but if the fears are simply based on faulty analysis and lack of appropriate responses to globalization, then it’s an unnecessary contradiction we’re imposing on ourselves.

I think we need to rethink a whole lot of things—trade, aid, how we want to operate in the world. I think we can do it because we’re very pragmatic and solution-oriented. And I think the U.S. will do it ahead of anybody else.

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Please send questions and comments on this article to editors@cioinsight-ziffdavis.com.