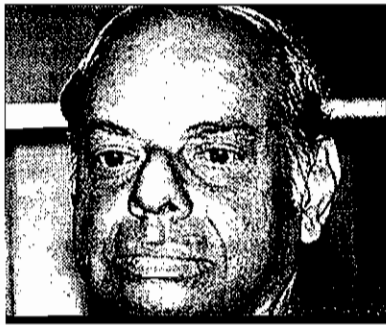


Who's afraid of globalisation?

We cannot wish away globalisation; the only realistic option is to manage it in such a way as to maximise the benefits and minimise the costs



C Rangarajan

GLOBALISATION evokes extreme responses: to some it is a ticket to a brave new world; to others it is nothing short of doom and destruction. This is a debate that has frowned on moderation. No revolution in human history has been totally benign, so is the case with globalisation, which comes with benefits and costs. We cannot wish away globalisation; the only realistic option is to manage globalisation in such a way as to maximise the benefits and minimise the costs. To appreciate the challenge and opportunity of globalisation, we need to look no farther than the enormous benefits we got out of the knowledge economy. We got off to a head start here because of our superior technical manpower. India's external position has never been stronger than what it has been in the post-liberalisation period.

Globalisation means free cross-border movement of information, goods, services, capital and people. Globalisation is more than just about economics. It is not only about ratio of exports to GDP but also about culture, society, politics and people. Indeed many hopes and fears about globalisation are shaped by these non-economic aspects of globalisation. The fear of cultural hegemony haunts many.

Limiting ourselves here to the economic dimensions, integration occurs through the three flows of goods and services, of capital and of finance. Received wisdom is that free trade is beneficial as it leads to efficient allocation of resources consistent with comparative advantage, and that restrictive trade practices impede growth. However, a major concern is that emerging economies will gain from international trade only if they reach the full potential of their resource availability. This will inevitably take time. That is why international trade allows for "special and differentiated treatment" giving the emerging economies longer time to reduce trade barriers.

Capital mobility, likewise, implies that investment in emerging economies is no longer limited by domestic savings. Emerging economies have an obvious preference for direct investment over portfolio flows as the latter do not always lead to expansion of productive capacity and can be volatile, particularly in times of loss of confidence. Some countries have tried putting restrictions on portfolio flows, but in an open system such restrictions cannot work easily.

The phenomenal expansion of foreign exchange markets is one of the defining features of the current phase of integration. The gross daily turnover of the foreign exchange markets, estimated at \$1.5 trillion, is several hundred times the volume of global trade in goods and services. However, the volatility in the foreign exchange market is one of the downsides of globalisation. When the Thai baht collapsed in July 1997, it triggered possibly the biggest post-war economic crisis that engulfed almost all parts of the world. Capital markets are ruthless in punishing

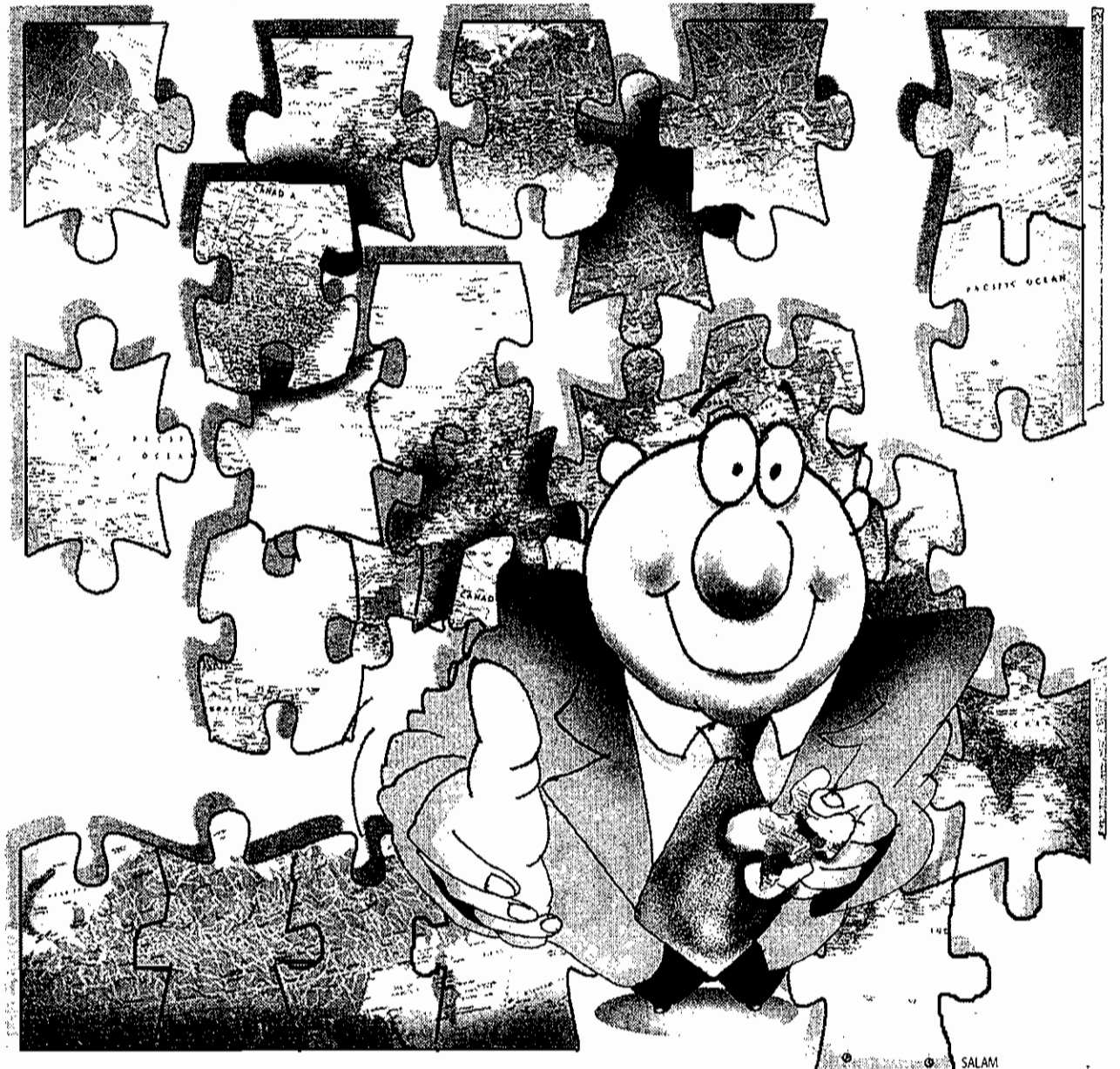
lapse of caution and sound policy. When an economy becomes more open to capital and financial flows, there is even greater compulsion to ensure that factors relating to macro-economic stability are not ignored.

On the impact of globalisation, there are two major concerns. First, it is argued that globalisation sharpens inequities across countries as its rewards are skewed in favour of rich countries because of their skill and technology endowment. However, in this era of knowledge-intensive production, international comparative advan-

veloping economies gaining in the globalising scenario. In aggregate world exports, the share of developing countries has been increasing. More notably, their share in aggregate world output increased from 17.9% in 1988 to 40.4% in 2000. We must acknowledge though that not all developing countries have gained equally; Africa lags behind and benefits across Asian countries have been uneven. As for increasing inequity of income within countries, it is very difficult to trace the changes in the distribution of income directly to globalisa-

as in domestic policies.

The goal of the multilateral trade system is to promote free and fair trade although fair trade has often times been sacrificed at the altar of free trade. Rich countries indulge in doubletalk demanding that poor countries dismantle their trade barriers even as they are loath to accept corresponding obligations. Although the average tariffs in the OECD countries are only in the 4%-8% range, their tariffs on poor country exports are staggering — 100% on meat and sugar, and 180% on banana exports beyond the



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tage is no longer defined just by national resource endowment; human skills matter too. Here too there is, of course, a gap between the rich and poor countries, but that is a gap that can be more easily bridged.

It has also been argued that globalisation leads to more iniquitous distribution of income within countries. The argument is that even when a country gains from globalisation, the benefits accrue to those who have the skills and technology. In this context, it is to be noted that while globalisation may accelerate the process of technology substitution, developing countries even without globalisation will face the problems associated with moving from lower to higher technology.

Indeed, empirical evidence points to de-

tion. Domestic policies have a much greater impact.

The second concern stemming from globalisation is that it compromises national sovereignty by disempowering governments from following independent policies. It is true that globalisation demands that the state yield to market forces, but to claim on this basis that the nation state, as we know it, is dead is clearly an exaggeration. Globalisation does not mean abdication of domestic objectives; it only means designing domestic policies recognising the constraints imposed by globalisation.

India's response to globalisation has, obviously, to be to maximise the benefits and minimise the costs. This has to reflect both in our position in global trade talks as well

quota. Besides, there are conflicts of interest across developing countries as well.

Even as we make efforts to modify the international trading arrangements, our domestic policies must be designed to preserve, promote and expand our comparative advantage in a dynamic sense. We also need to maintain macroeconomic stability so that we can take advantage of the enhanced market access provided by globalisation.

As an eminent critic put it, the world cannot marginalise India. But India, if it chooses, can marginalise itself. More than many other countries, India is in a position to wrest significant gains from globalisation. We should not let go this opportunity.

(The author is chairman, prime minister's economic council)