

NOTE

## End of Globalization?

Bharat Jhunjhunwala writes :

The world economy is showing some sign of revival. But this may be a false start. Globalization has encouraged the developed countries to transfer their advanced technologies to the developing countries. They no longer have absolute control of these technologies. As a result their erstwhile monopoly on advanced goods like computer servers, rockets, nuclear reactors, etc. has evaporated into thin air. They are getting some royalty payments from the export of these technologies. But these decline with time. It is necessary to continuously generate new technologies to maintain the stream of income from royalty payments. This does not seem to be happening. In the fifty odd years after the Second World War many decisive technologies were developed. These included rockets, jet airplanes, computers, nuclear reactors, etc. But there has been no such development since the *internet* in the nineties. Thus they are now receiving fewer royalty payments but they have to compete with hi-tech goods produced in India and China. The low cost of labour provides a deep advantage to these developing countries. Developed countries will not be able to compete with hi-tech India and China. As a result the problems of the developed countries will only get worse.

This is inherent in the mechanism of free trade on which present model of globalization is built. Globalization has actually made things difficult for the developed countries. It has encouraged them to transfer advanced technologies to the developing countries. For example, American and French companies are excited about transferring advanced nuclear power reactors to India upon the successful culmination of the nuclear agreement. In the result, American economy is fast losing its technological advantage and that country is slipping as seen in the hue and cry over outsourcing.

Globalization removes the comparative advantage of advanced technologies enjoyed by the developed countries till recently.

Free trade has added to the woes of developed countries in another way. The daily wage of an unskilled worker in India is about Rs 200 against Rs 5,000 in the US. It has become profitable for US companies to produce in India and export the manufactured goods to their home economy. Wal-Mart is procuring about 80 percent of its goods from China. Production of garments, toys and footwear has practically come to an end in the US. Wages of American people are under pressure.

The US Government made a huge \$700 billion stimulus package to bailout US banks from the present crisis. In other words the US Administration has indirectly bought these loans from crisis-ridden banks. This package was successful in lessening the immediate pain but it will wholly fail in solving the long term crisis. The stimulus package has had the consequence of artificially maintaining high wages in the United States. The cost of production of American companies continues to be more than that of Chinese companies. American companies will therefore not be able to compete with India and China and the resulting downward pressure on wages of American workers will persist.

The solution for developed countries will come from adopting a protectionist stance. Developed countries will be better off if they impose high import tariffs. Such import taxes, when imposed on garments, for example, will lead to high cost of garments in the US and, accordingly, it will become possible for US companies to pay higher wages to the extent of import taxes. Import taxes will also put brakes in the penchant for exporting advanced

technologies. Presently American companies are transferring advanced technologies, in part, because they want to import the goods produced. Use of advanced technologies lowers the cost of production in China and enables cheaper import of goods into the US. Higher import duties will lead to lesser imports and correspondingly lesser incentive for the export of advanced technologies. It is clear that present model of globalization has reached its end because there is no solace here for workers of the developed countries. □□□