Despite recent setbacks, globalisation will continue apace; India must gear itself up for it

No Stopping Globalisation

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Brexit, US President Donald Trump and the rise of illiberal, anti-immigrant leaders in central and eastern Europe are commonly cited to assert the retreat of globalisation. Such worries are exaggerated.

True, world growth and trade have slowed to a crawl. The World Trade Organisation has become hollowed out, its core dispute-settlement mechanism dysfunctional and the Doha Round stalled. Even as multilateral trade deals languish, regional trade agreements proliferate, both within regions, and among regions, as between Mercosur and the EU. The US, under President Trump, believes in bilateral deals tailormade for each country. His initiation of a trade war with the world's second-largest economy, China, testifies to globalisation's troubles.

Trump, Brexit Mere Bumps

It is also true that global flows of foreign direct investment (FDI) have been declining since 2015's peak of \$2.03 trillion. But this is not the only occasion when FDI has ebbed after rising. In 2007, total FDI stood at \$1.9 trillion and the figure dwindled to \$1.17 trillion by 2009, before rising again. The value of cross-border mergers and acquisitions declined in 2017 to \$694 billion from \$887 billion in 2016, but climbed again to \$816 billion in 2018. The figure had crossed \$900 billion in 2000.

The fact remains that the stock of FDI in the world is over \$32 trillion, according to Unctad. That is a big chunk of capital deployed outside the home country. No one is in a hurry to turn their back on this level of investment. Why, then, this backlash against globalisation?

Globalisation has been just great for entrepreneurs. Capital is footloose and scours the world for global deployment. Markets are global. Talent is to be drawn from around the world. A whole lot of technology can be purchased or licensed, run off a cloud using working capital, reducing the need for sunk capital. Profits have been on the rise, not only in absolute terms but also in relation to the returns to labour.

Inequality, of income and wealth, is on the rise in practically all countries that have grown fast in the era of globalisation. High-school graduates in the US could hope to join the middle class with solid working-class jobs, prior to globalisation. When manufacturing got unbundled as supply chains, mostly located in Asia, this American dream evaporated. But entrepreneurs continued to thrive, even as wages stagnated and certain jobs disappeared.

The information technology and communications revolutions made a whole lot of business tasks geography-non-specific. Whether the accounting team sits in Chicago or in Bengaluru makes no difference to the quality of the company's numbers, but the lower cost of accountants in Bengaluru would enhance its bottom line. Outsourcing of middle-class jobs meant stagnation of the incomes of yet another layer of workers in advanced countries, even as profits continued to soar.

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Still a blue chip

However, countries like India and China have benefited immensely from globalised growth, reducing poverty, creating large middle classes and exhilarating in rising living standards that reflect narrowing of the gap between their average incomes and that of the US.

Profits, Welfare Weigh In

Businesses gain from globalised production. Workers in advanced countries lose out from that process of globalisation. They vote to office populists who seek to reverse globalisation. They would prevail in the short run, but fail in the medium term. This is both because, in their ability to sway the State to act at their behest, capital beats labour hollow, and because the collective good of humanity lies in globalisation continuing apace. Rapid growth in India improves lives at the bottom of the pyramid here, and Chinese exports lower the cost of living for American consumers, in general.

Trump's trade war with China is relocating some production away from China to Vietnam and Malaysia, not to the US. That is like light getting refracted when it passes through a pane of glass. Tariffs on Chinese imports shift the pattern of globalisation, but what emerges after the shift is still globalisation.

As trillions of dollars of European government bonds return negative yields, the developed world's sovereign wealth funds, pension funds and other pools of savings look desperately around the world for decent, reliable returns and see only the developing world.

The race for the emerging African market and China's belt and road project will keep globalisation going. Domestic politics and taxation of global business will redistribute the gains of globalisation, taming opposition.

Industry 4.0, with automation and artificial intelligence, will still stay globalised.

India must prepare for globalised growth by lowering protection and thereby forcing companies to raise productivity. Reform must make the markets for bonds and power work, get schools to function and universalise healthcare. India's native genius for letting multiple cultures, faiths, linguistic and ethnic groups live in harmony and dignity must flourish, not wilt, to partake in globalised growth.

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Globalised growth calls for internal reform, export competitiveness and nourishing India's genius for peaceful coexistence of different faiths and cultures