

## Lyon 2006 - European Ideas Fair Speeches

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First Roundtable - *Globalisation: Facing the Asian Challenge*

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I intend to speak on the Asian perspectives of globalisation, but since I come from India, I'm sure you'll notice there will be a great deal of Indian flavour although it's supposed to be an Asian one. Well, much though you in Europe might be looking at it pessimistically, there is a clear consensus that at least for another century or more, Europe will remain an important region, politically and economically in the world. But there is the increasing feeling that Asia is emerging very fast. Some would like to say that the 21<sup>st</sup> century actually might belong to Asia, as the 20<sup>th</sup> century belonged to the emerging USA.

Asia is, however, not homogenous. Broadly we can divide Asia into three regions, East and Southeast Asia, South Asia, and the Middle East. Of course there are other regions like Central Asia or other countries but my focus will be on South and East Asia. Well, you all know that Asian countries - and some Asian countries in particular - China, India and others, are now recording fast economic growth. East Asian countries have already attained a very high standard of living through open economic globalisation and trade. They're quite open and they're very confident of the challenges of globalisation.

South Asia is now picking up very fast. India, after a very slow 3,5% growth for the past three decades since independence, has since recorded about 6% over the next couple of decades and now we are in the region of 8%+ in economic growth. Our next five-year plan is now being discussed; consensus is that we should aim for at least 9% growth.

I specialize in macro-forecasting and I'm known in my country to be a little conservative, because I believe in hard modelling evidence. But even I am convinced that we will probably grow at least 8% in the next couple of decades. Unless, which I'll come to towards the end, it's not economics, but politics that puts on constraints.

Even the rest of South Asia is also doing fairly well. Notwithstanding all the political problems in Pakistan and Bangladesh, they're recording about 5-6% healthy growth. I'm sure Afghanistan, once things stabilize, will also probably record much faster growth than they have at the moment. No wonder, therefore, that there is a growing perception that Asia will be emerging as a major force. As I look forward to the next couple of decades, one thing is evident, notwithstanding the slow down evident in some of the rich Asian countries like Japan or even

Singapore, the rest of Asia led by China or the new dark horse of Vietnam, would certainly record very fast growth and it will be open, trade-oriented growth. Protectionism is no longer an argument in the whole of East and South Asia; the whole region is very open in terms of trade.

South Asia joined this league of high growth more recently, but there is a difference. India, the biggest of the South Asian countries, differs from East Asia in two major respects:

- a) It's a very vibrant and liberal democracy unlike the rest of East Asia. East Asian democracies are often more like what is called the guided democracies of Singapore, or China, which has no democracy at all. So there are internal conflicts in the political economy in the process of globalisation. This sharp inequality is being suppressed. But in India, being a very vibrant liberal democracy, such issues are very heatedly debated and as a result, often the policies with respect to globalisation are constrained by it. But in spite of this, because of India's dominance in skilled labour activities, whether in services or in manufacturing, we expect that the growth rate will remain 8%+ at least for the next couple of decades if not more.
- b) But the second difference between India and some of the other Asian countries is that India is far more heterogeneous. There is no majority in India. Everyone in some sense is a minority - politically, ethnically, culturally, religiously - whereas in other Asian countries, though they have minorities, the great majority belongs to one particular ethnic and linguistic group.

But that puts up another roadblock, because in the process of globalisation different communities' responses and gains from globalisation are quite different. For instance, the Muslims in India, because they didn't want to be educated in the Western, English way, now find they are being marginalized. That's one of the reasons leading to an undercurrent of turmoil in the country, because they rely on their traditional education, called the Madrassa school, whereas in other regions, young people go straight into English middle schools. So they perform better, get into the more prestigious universities and institutions, and this enables them to get a 'globalised' salary and work all over the world.

Now, this is the second point that we need to highlight and it is important. Presently, Indian globalisation has two major problems. One is that agriculture has not gained. The Doha Round of discussions has come to a roadblock primarily because developing countries, including India, felt that Europe and America have not opened agricultural markets, while we have opened on industrial markets. So the response is unequal. That's the reason why there has been a hardening of attitudes.

Because the great majority of Indians live in rural areas depend on agriculture for their livelihood, the Indian Parliament was compelled to adopt a very strong and tight Doha Round position which led to the Indian representatives, the ministers, to say some very harsh things in the negotiations. So we know that in the near future it's unlikely for the Indian Parliament to accept globalisation of agriculture, that is opening of agriculture, unless a reciprocal response comes from Europe and America in terms of agricultural subsidies. And that's something vital, as the minister who spoke there said bluntly, 'look, do you want us to remain a democracy, then we can't do it this way'.

But the second issue on which there is growing resentment is that the gains of globalisation are being reaped by the English speaking or, at least, educated people, mainly in the cities, mainly through highly skilled services. We

have already shown our capability in information technology, but the new fields on which we predict our presence will be strongly felt in the next couple of decades are technology, education, medical, pharmaceutical services, and various types of professional services, will be much more than the much talked about information technology. So this requires professional skills. These, unfortunately, are not available to the rural population, or the poor.

Now the present World Trade Organisation is, in principle, partial. While there has been an agreement for multilateral mobility of goods and services as well as capital, there hasn't been one for labour. So labour movement agreements are still bilateral. Europe and America have opened doors to our labour, but only bilaterally and only to skilled Indian labour. So the salaries of Indian skilled labour have risen very high. This year alone in the US, more than 200,000 Indians are expected to enter the US every year. And they probably want more, I understand, from the discussions we are having.

But the rural people, the less educated people remain confined to low wages. And thanks to democracy, thanks to media and communication, they know about the widening differences between salaries of the less educated Indians and the more educated Indians. And again this is perceived to be a response to globalisation because it is globalisation that has pushed the educated Indians' salary to very high levels. So I think that's another issue where India's response in the future round would be: open up labour along with capital. Then you might see easier acceptance of globalisation in countries like India.

So my concluding remarks on this are, I think Europe, if you wish to be open to the wider Asian markets, especially the South Asian markets, you may also have to respond. Personally I believe you would also gain, your goods in India are restricted to urban markets. And as a result, your gains from trade are also restricted. If you open up, you open up the vast Indian rural market, which is untapped. In return you may have to open up a little more in the agricultural sector, if not fully on labour, but at least be more general rather than restrictive and selective with respect to labour mobility. Notwithstanding this, however, I believe Indian globalisation will continue. But there will be a little restraint mainly because, as I said, the mere compulsions of democracy of getting the elected leaders elected from the rural constituencies, from which are drawn the great majority of members of Parliament, will constrain the scope of globalisation, although among the intellectuals, among the educated, among the professional Indians, there is a clear perception that globalisation is going to benefit us and they're very confident that in an open competition they can come up to any standard in the world.