


The Role of the Internal Market in a Globalizing World

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- Globalization is an on-going process, and the problem of internal market must be viewed in this context.
 - Implies, our connection with globalization must be strategic with a clear focus on internal market
 - Size of the internal market depends on population, purchasing power etc. It is more important from larger-sized countries with greater flexibility. Smaller countries have greater compulsion for regional cooperation. Limitation of time will not permit discussion of this topic.

Reasons for focus on internal market

- Employment implications. Role of economic policy in influencing aggregate demand and internal market.
- Creating internal market through export surplus and foreign trade multiplier is a zero-sum game, and causes financial disequilibrium over time internationally.
- Sensitivity to international fluctuations

Globalization means:

- Greater relative importance of external compared to internal market/market incentives.
- This has three major aspects.
 - a) TRADE
 - b) INVESTMENT
 - c) FINANCE

Each aspect treated in turn



TRADE

- The “dangerous obsession” that higher labour productivity and lower real wage are necessary to enhance international competitiveness.
- Treat labor productivity growth as a source of growth in domestic output and employment (elasticity rule)



Investment

- Avoid the danger of “race to the bottom” to attract direct foreign investment (DFI) in term of domestic revenue/tax collection; wage repression, political dissent.
- Instead, take recourse to “rise to the top” argument as a destination of DFI by providing better infrastructure, skilled labour, less corruption in administration etc.
- This would combine expansion of internal market with welfare state.
- Expansion of internal market through wage-led and profit-led policies. The distinction less sharp if (a) focus is not on international cost competitiveness (b) “Rise to the top” by attracting DFI raises consumption (wage-led) as well as investment (profit-led) growth



OVERVIEW: STRATEGY

- Focus on internal market would mean:
 - GDP growth as the outcome of employment growth
 - Not employment growth as the outcome of GDP growth as happened in India and China in recent decades.
 - Composition of output adjust accordingly to demand composition. With more production for domestic consumption
 - Productive employment growth increases supply to keep up with increased demand in the internal market. Balance achieved without straining or relying too much on external market