

USAWC STRATEGY RESEARCH PROJECT

GLOBALIZATION AND STATE SOVERIGNTY

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ABSTRACT

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The nation-state, the basis of international relations and main framework for the existence and exercise of sovereignty and democracy of modern-day human communities, has been challenged by the phenomenon of globalization. Unprecedented changes in communications, transportation, and computer technology have given new impetus to economy. Globalized capital is reorganizing business firms and undermining national politics. Globalization creates vast new markets and gigantic new wealth, as well as widespread suffering, disorder and unrest. Under the condition of globalization, 'local', 'national' and 'continental', political, social, and economic space is reformed in a way so that it is no longer necessarily coterminous with established legal and territorial boundaries. Although the nation-state continues to remain as the principal unit of analysis in the changing context of globalization, it now needs to be examined. The proposition that globalization make states unnecessary, is even less credible than the idea that it makes states impotent. The state normally defines identity. A sense of belonging is part of people's sense of security, and one that most people would not want to give up, even in the age of globalization. Finally, as the world economy continues to integrate and cross-border flows become more important, global governance must be improved. Global governance will come not at the expense of the state but rather as an expression of the interests that the state embodies. As the source of order and basis of governance, the state in future will remain as effective, and will be as essential, as it has ever been.

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GLOBALIZATION AND STATE SOVEREIGNTY

INTRODUCTION

Globalization is not new, nor it is just Westernization. Over thousands of years, globalization has progressed through travel, trade, migration, spread of cultural influences and dissemination of knowledge.¹ For over five hundred years, monarchs, adventurers, generals, philanthropists and financiers have been constructing an ever-more-global economy. Today, unprecedented changes in communications, transportation, and computer technology have given new impetus to globalizers. Around the world, globalizing capital is reorganizing business firms, sweeping away regulations and undermining local and national politics. Globalization creates vast new markets and gigantic new wealth, as well as widespread suffering, disorder and unrest.

The nation-state, the basis of international relations and main framework for the existence and exercise of sovereignty and democracy of modern-day human communities, has been challenged by the phenomena both of regionalization and globalization. For 200 years capitalism was inextricably linked to the nation-state. It emerged in the form of national markets, based on national territories and relied on the state for support. Two nation-states - Britain in the 19th and the United States in the 20th century successively formed the hegemonic core of capitalism. According to current wisdom, however, the bond between the nation-state and capitalism is now coming to an end. Globalization is said to be making the nation-state obsolete, politics irrelevant and national sovereignty an empty shell. This alleged demise of the nation-state and national sovereignty is part and parcel of the universalist claims of contemporary capitalism. For the first time in history, capitalism has spread its reach to the remotest parts of the world and posits itself as a global system. Neither British capitalism in the 19th century nor even the American post-1945 version was truly universal. Today, capitalism is said to have finally broken away from its national moorings. It has become, as it were, extra-territorial, rootless and identity-less.² This phenomenon challenges the old concept of the nation state. The free markets reduce the managerial role of states, in which governments strives to cope with economic constraints that are beyond their control.

There is hardly any short definition of globalization. Globalization can best be understood as a set of processes rather than a singular condition. It reflects the emergence of interregional networks and systems of interaction and exchange. The spatial reach and density of global and transnational interconnectedness weaves complex networks of relations between communities, states, international institutions, non-government organizations and multinational corporations

which make up the global order. Globalization is associated with an evolving dynamic global structure of enablement and constraints.³

In the last three decades, several developments have provided powerful impetus to the acceleration of the process and all of these have their origins in the rich countries of the industrialized world. First, the spurt in technological progress raised productivity in the West at the time when their markets had become saturated. It was evident that a market had to be found abroad. Naturally, the urge was felt most immediately by large corporations who started trading abroad, but soon followed up by local manufacturing. Second, the developed economies, with a high level of saving, generated enormous funds that were looking for investment opportunities all over the world. A huge and complex network of banks and financial institutions came into being to facilitate global flow of private capital. Third, revolutionary progress in Information Technology (IT), with microprocessor, communication satellites, fiber optics etc., made it increasingly practical to establish global business, manufacturing, financial and technology networks and to manage them effectively from a central command center. The age of globalization had arrived.

There is a growing view that the power of the nation state is eroding from above by globalization, and from below by devolution. Decades ago, in his book "The End of Ideology", Daniel Bell asserted that the state was becoming too small to handle really big problems and too large to deal effectively with small ones. Perhaps his vision is now more manifest. In any case there is little doubt that the accelerating pace of structural transformation of the global economy places increasing strain on the adaptive capacity and hence legitimacy of governments and international institutions. There are two clocks ticking: the clock of accelerating interdependence and the clock of domestic and multilateral decision making.⁴

RELATION OF GLOBALIZATION WITH INTERNATIONALIZATION, REGIONALIZATION AND STATE

Under the condition of globalization, 'local', 'national' and 'continental', political, social, and economic space is reformed in a way so that it is no longer necessarily coterminous with established legal and territorial boundaries. As globalization intensifies, it generates a pressure towards a re-territorialization of socio-economic activity in the form of sub-national, regional, and supranational economic zones, mechanisms of governance and cultural complexes. Although the nation state continues to remain as the principal unit of analysis in the changing context of globalization, it now needs to be examined by what David Held calls "internal" and "external disjuncture" between, on the one hand, "the formal domain of political authority they claim for themselves and, on the other, the actual practices and structures, of the state and the

economic system at the national, regional and global levels⁵. According to David Held, international law, international security structures, national identity and the globalization of culture and the world economy have significantly imposed constraints upon the nation states. As he points out, “sovereignty itself has to be conceived today as already divided among a number of agencies – national, regional and international – and limited by the very nature of this plurality”.

The globalization process uses the advantages of all the potential players, starting with the economic players. The growth of neo-liberalism, enables individuals to invest and to trade directly, bypassing the States and their control. Alongside the market, different forms of transnational solidarity take place. Due to the immediacy of image, information, and communication, individuals are now directly involved in the domestic affairs of neighboring or distant states. Globalization also enables a very large number of players to emerge on the international scene, who will have their own international agenda, their own political will (in the case of NGOs) or will pressure the State to intervene on the international stage, as in the case with international public opinion. States are making profound changes to endure alongside other non-state international players, while losing one of their essential characteristics, principle of sovereignty. The state has several assets in its hand. It enjoys the virtues of a favored partnership: it is much easier to negotiate with a state than to negotiate with a transnational flow.⁶

DOES GLOBALIZATION POSE A THREAT TO NATIONAL SOVEREIGNTY OR IDENTITY?

The notion of a self-governing community has ancient sources, but in the modern nation-state, it requires a distinctive credibility. The modern state, based on representative government, reinforces and legitimizes the state's capacities for taxation. It also creates a uniform national system of administration. As mentioned by Paul Hirst, the international economy does not correspond to the model of globalized economic system. The emerging forms of governance in international markets and other economic processes involve the major national governments in new roles; states will come to function less as sovereign entities and more as the components of an international 'quasi-polity'. The central functions of nation-states will become those of providing legitimacy for and ensuring the accountability of supranational and subnational governance mechanism.⁷

The specter of globalization is haunting the world's governments. Some argue that predatory market forces make it impossible for benevolent governments to shield their populations from the beasts of prey that lurk beyond their borders. Other counter that benign

market forces actually prevent predatory governments from fleecing their citizens. Although the two sides see different villains, they draw one common conclusion: omnipotent market mean impotent politicians.⁸

National politics and political choices have been sidelined by world market forces which are stronger than even the most powerful states. Capital is mobile with no national attachments and only looks for economic advantage. Labor is both nationally located, relatively static, and it must adjust its political expectations to meet the new pressure of international competitiveness. Distinct national regimes of extensive labor rights and social protection are thus obsolete. So too are monetary and fiscal policies contrary to the expectations of global markets and transnational companies. The nation-state has ceased to be an effective economic manager. It can only provide those social public services deemed essential by international capital and at the lowest possible overhead cost.⁹

Globalization is not in itself a folly: it has enriched the world scientifically and culturally, and benefited many economically. Not long ago, pervasive poverty dominated the world with only rare pockets of affluence. The predicament of the poor cannot be reversed by withholding the advantages of technology, the efficiency of international trade and exchange, and the social and economic merits of living in open societies. What is needed is fairer distribution of the fruits of globalization. The central issue, directly or indirectly, is inequality: between as well as within nations. The relevant inequalities include disparities in affluence, but also gross asymmetries in political, social and economic power. A crucial question concerns the sharing of the potential gains from globalization, between rich and poor countries, and between different groups within countries.¹⁰

Poverty can be defined as the inability to attain a minimally adequate standard of living. The standard of living is measured by the level of private consumption, and those that are poor are identified by adopting the \$1-a-day and \$2-a-day international poverty lines. Most least developed countries (LDC) are characterized by a situation in which absolute poverty is pervasive throughout the society. During 1995-1999, 80% of the LDCs population lived on less than \$2 a day and the average level of consumption of these people was only \$1.03 a day. Fifty percent of the population lived in extreme poverty, with an average level of consumption 64 cents a day. In 49 LDCs of total 613 million people, 307 million live on less than \$1-a-day, and 495 million live on less than \$2-a-day.¹¹

Most LDCs are caught in a poverty trap. The cause of poverty can be identified at different levels of aggregation, running from micro level to national level and at the global level. An individual level of poverty trap is shown as a loop in the box chart 1. Very poor people tend to

be hungry, sick and weak. Therefore, they are able to cultivate less, and they have less money to buy food or can produce less food, and so they are hungry. The rest of the loop chart is self explanatory.

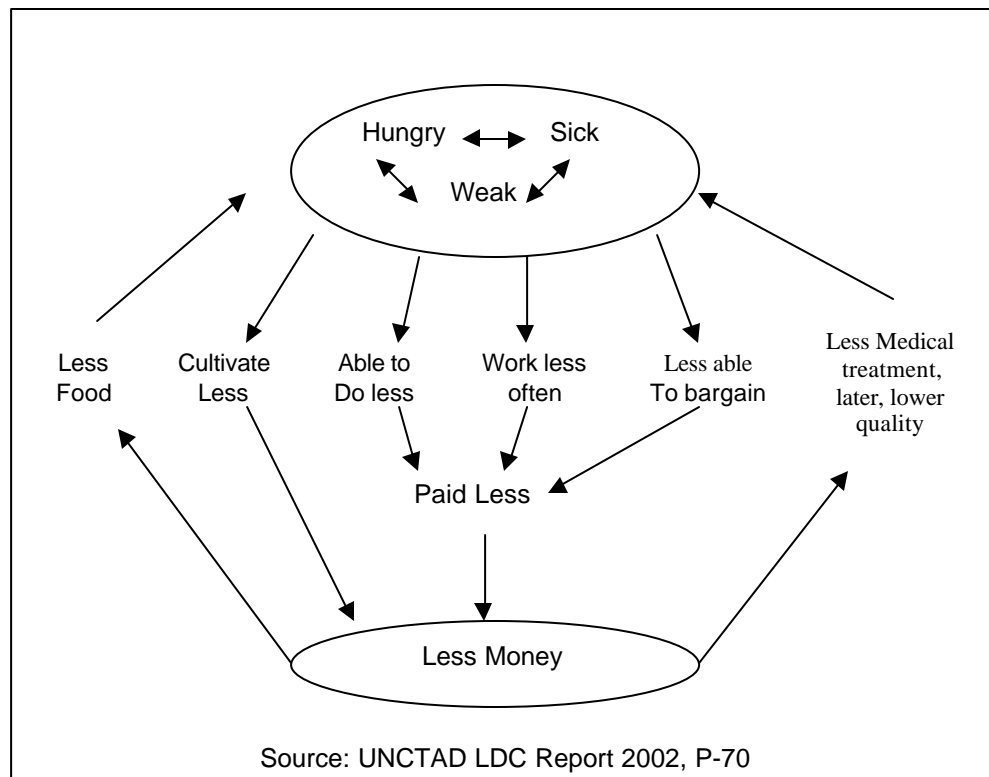


FIGURE 1: A POVERTY TRAP AT THE LEVEL OF INDIVIDUAL

IS GLOBALIZATION ANOTHER FORM OF COLONIZATION?

One hundred years ago J. A. Hobson, an English writer, published Imperialism. He wrote that it was the duty of more civilized nations to colonize “lesser” nations in order to bring them up to standard. Interconnectedness of the world’s peoples meant, in Hobson’s mind, that a sane imperialism must arise – an imperialism in which the foreign power is genuinely “devoted to the protection, education and self-development of a ‘lower race’”. Hobson essentially endorses what is known today as “humanitarian intervention”.¹²

The phenomenon of globalization challenges the old concept of the nation-state. The free market reduces the managerial role of states, in which it strives to cope with economic constraints that are beyond its control. It watches helplessly as the balance of forces swings towards the global markets. Within its historical borders it has ceased to be the locus of political

action and identity, of social cohesion and the general interest. In short, the state is supposed to have become, at best, just one among a number of otherwise private players in the international system. Though in many parts of the world the state has indeed lost control, the fact remains that the American state has not withered away in the new free market utopia. On the contrary, US hegemony and sovereignty have been strengthened in spectacular fashion. In Europe, state power has been redeployed in accordance with the logic of globalization to achieve economic unification.

The creation of a worldwide free market is rooted in a series of decisions taken by the US over the last 30 years which dismantled the post cold-war international monetary system, liberalized world markets and granted the financial sector an autonomy and power unparalleled since the golden age of British finance. The US began by abandoning the system of fixed exchange rates established by the Bretton Woods Agreements in 1944 and introducing a system of generalized floating exchange rates. There was a strong economic motive for the decision, which the US authorities took unilaterally in 1973. They were seeking to compensate for declining competitiveness and a growing national debt by correcting the country's macroeconomic imbalances. The floating exchange rate system provided a flexible and efficient monetary tool that enabled them to avoid the adjustments that would otherwise have been required by America's new situation as a debtor. In a system of fixed exchange rates and gold convertibility, the US would have been obliged, like every third-world country today, to pay for its indebtedness with a relative loss of sovereignty and highly unpopular domestic austerity measures. Thanks to its political power and to the dollar, which was the world's only reserve currency, the US was able to keep its monetary sovereignty intact. Its allies could not question American policy without destabilizing the institutional fabric and the cold-war security system from which they derived undoubted benefits. The burgeoning US deficit was funded for decades by Japan and Europe.¹³

In the early 1990s Washington set three objectives: to maintain the global balance resulting from the end of the cold war, to ensure its technological lead and military supremacy, and to create an economic environment favorable to its own interests. For the most part, these objectives have been achieved. Admittedly, international balances are not static and hegemony does not mean absolute freedom of action. But no country or group of countries appears able to constitute a political counterweight to the US in the foreseeable future, let alone call into question its primacy in the hierarchy of nations. As political pundit Thomas Friedman puts it: "In the globalization system, the United States is now the sole and dominant superpower and all

other nations are subordinate to it to one degree or another."¹⁴ In other words, they ought to accept America's "benevolent global hegemony".

STATE VS NON-STATE ORGANIZATIONS IN GLOBALIZATION PROCESS

INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

The role of the information and communication technologies (ICT) revolution in the globalization process is extremely important. While previous technological revolutions had profound effects not on the economy but on the broader society, there is a plausible case for the claim that the ICT revolution is the biggest technological breakthrough that ever rolled. The convergence of information, communication and computer technologies differ from previous techno-economic paradigms, both because of the speed of transformation and the pervasiveness of impact, not only on manufacturing but, for the first time in economic development. In the manufacturing sector or more traditional industrial production, which would include services such as transport, whole sale and retail trade, the impact of ICT on both enterprise and industrial organizations has been to reduce the "middle layers". The result has been flatter organizations with fewer middle managers, the spread of just-in-time production systems and closer integration of production with demand thus reducing storage and inventory cost as well as intermediaries such as wholesalers. This shake-out restructuring proceeded much further in the US than elsewhere, but the ongoing job losses has been mitigated by growth stimulated largely by investment in ICT equipment. In other countries, where the full impact of restructuring is yet to be experienced and investment in ICT has lagged, the effects of job losses are likely to be more serious. Finally, in the manufacturing sector, the ICT revolution has made it cheaper and easier to manage far-flung and widely dispersed production networks leading to on going vertical integration.¹⁵

The full impact of the ICT revolution has some distance to go. A fourth phase of global integration is now visible in the globe of electronic commerce. There is an underlying shift in the technology trajectory from hard to soft, growing importance of network markets and telecommunication. Such development reduced borders and steadily integrated global economy.

WORLD TRADE ORGANIZATION (WTO)

Until the end of 1994, there was no multilateral or international organization that dealt with trade issues between countries. For almost fifty years, the international trading system had functioned under the aegis of the General Agreement on Tariffs and Trade (GATT). GATT was

created through agreement among trading nations. In 1994, during the Uruguay round of trade negotiations, the World Trade Organization (WTO) was formed. The WTO is the only multinational organization dealing with global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.¹⁶

WTO and Missed Opportunity for Developing Nations

The WTO having three newly emerging features. First, it is increasingly spreading its coverage to new areas. Second, the impact of the agreements of the WTO and their operations is much wider and deeper for the economies of countries, particularly the developing countries. Third and perhaps the most important, the economies of the developing countries are much more vulnerable for their weaknesses (lack of product diversity).

Most of the developing countries, however, have not been able to take full advantage of the opportunities provided by the GATT/WTO because of their undeveloped supply capacity. Some of them did improve their supply capacity and expand their trade, taking advantage of the opportunities available in their countries. South-East Asian and East Asian countries utilized the opportunities on a more stable basis, resulting in faster growth of industrial production and exports. Rapid expansion of exports in a sector would invariably generate protectionist tendencies, policies and measures in the developed countries. Such tendencies manifested themselves in the form of special trade regimes in some sectors, restraints on imports/exports outside the framework of the GATT, enthusiastic use of anti-dumping investigations and duties, and the current trend of using environmental concerns as a pretext for restraining imports. Further innovative methods of trade restrictions in the form of linking trade to labor standards are in the pipeline.

Immediately when developing countries started enjoying a good growth rate in the export of textiles, the industries in the developed countries felt the pressure of competition. Instead of letting the market operate freely, the developed countries sponsored a separate regime in this sector commonly known as the Multi-Fiber Arrangement (MFA), in derogation of the normal WTO rules. Later, restraints were imposed in some other sectors as well. For example, the major developed countries imposed quantitative limits to the export of jute products and leather products, which were mainly exported by the developing countries.

Amidst all these challenges in the WTO, the developing countries are in a very weak position. This weakness is manifested in various ways, some of which are well-identified as mentioned below:

LESS THAN EQUAL TREATMENT

The developing countries have been getting less than equal treatment in several areas. For example agreements on zero tariff for certain products which are mainly of export interest to developed countries have been rushed through. During the WTO Ministerial Meeting in Singapore in December 1996, a proposal was suddenly placed by major developed countries to have an agreement that there would be zero duty on information technology goods, and they had it approved. Products of export interest to developing countries have never received such prompt and decisive consideration in the WTO system.

MAJOR CONCESSIONS BY DEVELOPING COUNTRIES WITHOUT ANY RETURN

Developing countries have been making significant concessions to major developed countries without getting much in return from them. Usually this 'softness' has been displayed by the developing countries under three considerations. First, they agree to some of these measures in the spirit of cooperation. Second, they agree to some concessions under intense pressures from major developed countries. The entry of services and IPRs into the WTO and the agreements on financial services and telecommunication services are some important examples. Third, more recently there has been a tendency among the developing countries to be over-enthusiastic in being accommodative.

SPECIAL AND DIFFERENTIAL TREATMENT NOT IMPLEMENTED

Several important provisions of "special and differential treatment" of developing countries have not been properly implemented. In these provisions, the developed countries have undertaken a commitment to 'accord high priority to the reduction and elimination of barriers to products currently or potentially of particular export interest to less-developed contracting parties, including customs duties and other restrictions which differentiate unreasonably between such products in their primary and in their processed forms'. Developing countries have not been able to persuade developed countries to implement these provisions sincerely.

AREAS OF INTEREST TO DEVELOPING COUNTRIES IGNORED

The subjects of interest to developing countries have hardly ever occupied center stage in the WTO. Some important examples are given below. Tariffs in the developed countries on the products of special export interest to developing countries continue to remain high. Quantitative restraints on imports in several sectors of their interest continued for a long time, and still continue in some important sectors like textiles. Practically nothing has been done to eliminate or reduce harassment of the developing countries through measures in the garb of anti-dumping action, conformity with technical standards, protection of the environment, etc. Service sectors

of interest to them have not been taken up for serious negotiation; for example, the movement of labor has been given only scant attention so far.

WTO Decision-Making Process – Role of Developing Countries

The formal process of decision-making in WTO is by simple majority of the members present, with one member having one vote. However, there is hardly any occasion of formal voting as, in practice, decisions are taken by consensus. Unlike the International Monetary Fund (IMF) and the World Bank (WB), there is no weighted voting in the WTO, which works on the principle of one country one vote. Yet the developing countries, which form an overwhelming majority in numbers in the WTO, have not had any success in pursuing their objectives. They are always on the defensive and have to strive hard to reduce the hazards and damage that come their way. A country wishing to oppose a harmful proposal can be effective only if it puts up a formal opposition at the time a decision by consensus is sought. For a positive action, it has to muster the support of the majority of the Members present.

Generally, important proposals in the WTO are normally made by the developed countries. After they have formally made a proposal in a particular body in the WTO, there would be some preliminary observations by some delegations made in a non-committed manner. Thereafter the action shifts away from the “main stage”. The main sponsors hold limited consultations with some delegations, first trying to consolidate support and then involving the others to soften their possible opposition. Sometimes, the chairmen of the relevant bodies of the WTO and even the Secretariat organize such consultations. Invariably these are limited to a small number of delegations, the ones selected for participation being those that may have a keen interest in the subject or those that may be vocal in opposition in the open forum. A very large number of developing countries are left out of this process of consultations which are in reality full-fledged negotiations. In the meantime, pressures are put on the developing countries that had been opposing the proposal. Depending on the intensity of the opposition, the pressures may be applied on the delegations in Geneva or even bilaterally in the capitals. The usual technique of winning over the opponents one by one is also applied. In this process, a very large number of developing countries do not have the opportunity of participating in the negotiations which are held behind the scenes in small groups. They are faced with the final result in the open meeting at the end, and they do not have enough courage or motivation to put in a clear opposition or an effective reservation at that stage even if the particular decision is not fully in their interest. Their lack of agreement with the decisions that are eventually reached is evidenced by the bitter critical statements which some of them have been making after the

important meetings of the WTO. Some recent examples are the statements made after the Ministerial Meetings in Singapore and Geneva. In these small-group consultations and negotiations off the stage, generally the Quad countries (US, EU, Canada, Japan) are always present. Switzerland as the host country is also usually invited. Besides, either Australia or New Zealand, if not both, gets included. Thus the developed countries are almost fully represented. But among the one hundred or so developing countries, hardly five to ten get a place in these informal discussions and negotiations.

Weakness of Developing Countries in the WTO

The participation by developing countries in WTO decision process is generally of two types. Either they are indifferent and totally silent, or there is rigid opposition up to a certain extent, followed by abrupt and total capitulation. A very large number of the developing countries attend the meetings, listen to the statements and remain totally quiet. They neither support nor oppose a point. Their silence may be due to various reasons. One, they do not feel that the subject under consideration affects their countries directly and thus they are indifferent. Two, they do not understand the intricacies of the point under consideration and thereby prefer to remain quiet. Three, even if they feel sometimes that a particular proposal has adverse implications, they prefer not to come out openly against it, particularly if it involves opposing the major developed countries. Fourth, in the case of proposals with clear adverse implications, they feel that some other more active and vocal developing countries will be speaking out against the proposal and thus that their interest will be taken care of.

In the case of a very large number of developing countries, the missions in Geneva do not receive detailed guidance from their capitals, and thus they do not feel quite compelled to take a particular line in the meetings. In most cases, they do not have full knowledge of the subject and are not confident enough to make any intervention in the discussion. However, their indifference does not absolve their countries from the obligations which are imposed by the decisions taken without their actively participating in them, and thus it may prove costly for their country in the long run.

For example in the agricultural sector (a very important area of interest of LDCs), the subsidies used mainly by some developed countries, e.g., those for research and development, crop insurance etc. have been made immune from any countermeasure, whereas those generally by developing countries, e.g., land improvement subsidies and input subsidies, do not enjoy such immunity.

WILL GLOBALIZATION ASSIST OR THREATEN DEMOCRACY OR GOVERNMENT?

Modern communications form the basis for an international civil society, people who share interests and associations across borders. The international media also created a cosmopolitan culture, elite and popular, scientific and artistic, linked through the medium of English as a universal rather than national language. Such cultures, from children watching Tom and Jerry cartoons on TV to physicists gossiping on e-mail, are inevitably international. Cultural homogeneity becomes increasingly problematic, since national cultures are merely one of several cultures in which people participate for different purposes. Cosmopolitan and national cultures interact. Complete cultural homogeneity and exclusiveness are less and less possible. Inward-looking nationalism and cultural are the politics of losers. It is virtually impossible to continue to operate in the various world markets and still ignore the internationalized culture that goes along with it. Such inward looking nationalism does exist and will continue to develop, but to the degree that their political projects are successful, they have the effect of marginalizing their society.¹⁷

The state may have less control over ideas, but it remains a controller of its borders and movement of people across them. As we have seen, apart from a "club class" of the internationally mobile, highly skilled professional, and the desperate, poor migrants and refugees who will suffer almost any hardship to leave intolerable conditions, the bulk of the world populations now can not easily move. Workers in advanced countries have no frontier societies to migrate as they did in huge numbers to countries like Australia or Argentina in 19th century and in lesser numbers in to the 1970's. Increasingly the poor of Eastern Europe and the third world countries are unwelcome in advanced countries except as guest workers or illegal migrants working for poverty wages. Western societies are shredding labor, and local un-skilled labors find it harder and harder to get jobs, hence the pressure to exclude the poor migrants. In the absence of labor mobility, states will retain power over their people. They define who is, and who is not a citizen, who may and who may not receive welfare. In this respect, despite the rhetoric of globalization, the bulk of the world population lives in closed worlds, trapped by the lottery of birth. Wealth and income are not global, they are nationally and regionally distributed between poorer and richer states and localities. For the vast majority of people nation-states can not be regarded as just municipalities or local authorities, providing services that one chooses according relative quality and cost.

For the world's poor they cannot exit the free trade system and transform their societies by their own efforts within their borders. The problem is that without a transformation in the international economic order, without new strategies and priorities in the advanced countries

towards the third world, and without large scale foreign capital investment, poor countries are unlikely to benefit much from turning away from autarchy either.¹⁸

CAN THE STATE RESIST THE GLOBALIZATION PROCESS?

As an ideology, globalization connotes not only freedom and internationalism, but, as it helps realize the benefit of free trade, and thus cooperative advantage and the division of labor, it also enhances efficiency and productivity. Because of these virtues, and the alleged inability of governments to halt “progress”, globalization is widely perceived as beyond human control, which further weakens resistance.¹⁹

As the advanced countries seek to police the movement of the world's poor and exclude them, the capriciousness of the notions of citizenship and political will become more evident. Advanced states will not be able to make effective use of the claim to cultural homogeneity as a principal of exclusion- for they are already ethnically and culturally pluralistic. Exclusion will be mere fact, with no other logic or legitimacy other than that states are fearful of the consequences of large scale migration. A world of wealth and poverty, with appealing and widening differences in living standards between the richest and poorest nations is unlikely to be secure or stable. Industrial workers in the advanced countries fear the cheap labor of well-educated and skilled worker in the upper tier of developing countries like Taiwan and Malaysia. The poor of the third world see themselves as abandoned by a rich world that trades more and more with itself and with a few favored NICs.²⁰

TRADEOFFS FACING STATES

Ironically, the technology that is supposed to make globalization inevitable also makes increased surveillance by the state, particularly over people, easier than it would have been a century ago. Indeed, here is the world we now live in: with fairly free movement of capital, continuing restrictions on trade in goods and services, but quite tight control over the movement of people.

Economies are also never entirely open or entirely closed. Opening requires governments to loosen three types of economic controls: on capital flows, goods and services, and people. Liberalizing one of the above neither requires nor always leads to liberalization in the others. Free movement of goods and services makes regulating capital flows more difficult, but not impossible; foreign direct investment can flow across national barriers to trade in goods without knocking them down. It is easier still to trade freely and abolish controls on capital movement, while nevertheless regulating movement of people.

The important questions, then, concern the tradeoffs confronting governments that have chosen a degree of international economic integration. How constrained will governments find themselves once they have chosen openness?

THREE VITAL AREAS

Globalization is often perceived as destroying governments' capacities to do what they want or need, particularly in the key areas of taxation, public spending for income redistribution, and macroeconomic policy. But how true is this perception? Until now, it has been electoral resistance, not globalization, that has most significantly limited the growth in taxation. Collecting taxes is becoming harder due to a long list of "fiscal termites" gnawing at the foundations of taxation regimes: more cross-border shopping, the increased mobility of skilled labor, the growth of electronic commerce, the expansion of tax havens, the development of new financial instruments and intermediaries, growing trade within multinational companies, and the possible replacement of bank accounts with electronic money embedded in "smart cards."

The fiscal implications of labor, capital, and spending mobility are already evident in local jurisdictions that have the freedom to set their own tax rates. Even local governments can impose higher taxes than their neighbors, provided they contain specific resources or offer location-specific amenities that residents desire and consume. In other words, differential taxation is possible if there is at least some transport costs - and there always are.

The Internet will primarily affect four main areas: taxes on spending, tax treaties, internal pricing of multinational companies, and tax administration. Purely Internet-based transactions - downloading of films, software, or music - are hard to tax. But when the Internet is used to buy tangible goods, governments can impose taxes, provided that the suppliers cooperate with the fiscal authorities of their corresponding jurisdictions. To the extent that these suppliers are large shareholder - owned companies, which they usually are, this cooperation may not be as hard to obtain as is often supposed.

Governments will also use the exchange of information and other forms of cooperation to sustain revenue and may even consider international agreements on minimum taxes. They will certainly force the publicly quoted companies that continue to dominate transactions, both on-line and off, to cooperate with fiscal authorities. But competition among governments will not be eliminated, because the powerful countries that provide relatively low-tax, low-spending environments will want to maintain them. The bottom line is that the opening of economies and the blossoming of new technologies are reinforcing constraints that have already developed

within domestic politics. National governments are becoming a little more like local governments.

THE CONTINUING IMPORTANCE OF STATES

A country that chooses international economic integration implicitly accepts constraints on its actions. Nevertheless, the idea that these constraints wither away the state's capacity to tax, regulate, or intervene is wrong. Rather, international economic integration accelerates the market's responses to policy by increasing the range of alternative options available to those affected. There are also powerful reasons for believing that the constraints imposed on (or voluntarily accepted by) governments by globalization are, on balance, desirable.

The constraints, that self-imposed limits on a government's future actions, enhance the credibility of even a benevolent government's commitments to the private sector. An open capital account is one such constraint. Treaties with other governments, as in the WTO, are another, as are agreements with powerful private parties. Even China has come to recognize the economic benefits that it can gain from international commitments of this kind.

ROLE OF STATE AND NON-STATE ACTORS IN FUTURE GLOBALIZED WORLD ENVIRONMENT

COMMON APPROACH

People are less mobile than money, goods or ideas, and as such they will remain "nationalized", dependent on passports, visas, residence, and labor qualifications. The role of future democratic states will be to regulate their populations and that will give states a definite and unique legitimacy internationally to speak for its population. In a globalized economic system, nation-states will continue to have a significant role to play in economic governance at the level of both national and international processes. The emerging forms of governance of international markets and other economic processes involve the major national governments but in a new role: states will come to function less as "sovereign" entities and more as the components of an international "quasi-polity". Central functions of the nation-states will be proving legitimacy for and insuring the accountability of supranational and sub-national governance mechanisms. While the states claim to exclusive control of its territory will be reduced by international markets and new communication media, it will retain a central role that ensures a large measure of territorial control: the regulation of populations.

The nation-state can no longer independently affect the level of economic activity or employment within their territories: rather it will be dictated by the choices of internationally

mobile capital. The job of a nation-state will be like that of a municipality within states heretofore, to provide the infrastructure and public goods that business needs at the lowest possible cost. The new globalized economy allows companies and markets to allocate the factors of production to their greatest advantage, and without the distortion of state intervention.²¹

ROLE OF DEVELOPED NATION-STATES

There is a dispute resolution mechanism in WTO where aggrieved countries can submit complaints. However, this is a complex, protracted and expensive process. A major reason for the helplessness of the poor countries is their lack of leverage; they are in no position to impose retaliatory measures. Many poor countries affected by such arbitrary action have neither the technical expertise, nor money to mount an effective challenge. The present world trading system is fair in its shape and unfair in its impact, because it makes no marked distinction among its members in terms of ability to play the game.

Agricultural subsidies paid out to farmers by the USA and EU cost the poor countries more than \$250 billion a year in lost revenue, or more than five times the sum of all the aid they receive. Yet, in a recently held United Nations Aid Conference in Monterrey, Mexico, it was said that if the USA was to open its wallet, poor nations must open their market. The question is, how can the poor nations open their markets and face the competition of the rich nations in agriculture when subsidies and other support to farming in rich nations amount to about \$1 billion a day? And yet the poor nations are told they would lose aid if they fail to remove the subsidy on fertilizer needed to boost production and possibly achieving exportable surplus²².

As per the Bribe Payers Index 2002 (BPI) launched by Transparency International (TI), companies from top exporting countries (Russia, China, Taiwan, South Korea, Italy, Hong Kong, Malaysia, Japan, USA and France) paid high bribe prices in the emerging markets, i.e., developing and LDCs. Though many of the countries have signed an Anti-Bribery Convention of the Organization for Economic Cooperation and Development, which bans the bribing of foreign public officials, this did not have an impact against defaulters. Developed nations can take serious actions to stop bribing to enhance sustainable development.

THE FUTURE COURSE FOR DEVELOPING COUNTRIES FOR EMANCIPATION

The developing countries have to have the political determination not to be pushed around in the WTO forum. They should also have a resolute will to utilize the forum to serve their interests and minimize the adverse effects on them. In this process they have to move with a degree of confidence, identify their negotiating strengths and use them effectively. Efforts have

to be mounted at the national level, group level and multilateral level. It requires some institutional changes in the decision-making process.

The current feeling of helplessness that the developing countries cannot have their say in the WTO should be replaced by a new mood so that they can achieve their objectives if a number of them are united and well-prepared. The developing countries are in very large numbers in the WTO and even if one does not expect all of them to come together on all the issues, one can at least expect a large number of them to have a common perception and common stand on a number of subjects.

The developing countries should build up and strengthen their capacity. They could sponsor this work in some of the universities and institutions in their countries. They should also build up a network of institutions in developing countries for this purpose.

There is a need for a comprehensive assistance program. The main functions of the program could be the following:

- critical and analytical examination of the current and emerging issues from the perspective of the developing countries and their implications for them;
- assisting developing countries in preparing their own proposals in various areas in the WTO;
- examining the proposals of others with respect to their implications for the developing countries, and assisting developing countries in preparing their responses; and
- during the intense phase of negotiations, providing quick and prompt assistance in respect to the formulation of and responses to the amended proposals, which normally get tabled at that stage.

Such an assistance program will be supportive of the national efforts of developing countries in their preparation and also of regional and group efforts. In fact there could be a linkage of constructive complementarity of this program with the national, regional and group efforts.

POVERTY REDUCTION APPROACH

The poverty reduction approach, which is still evolving, has five elements. First, poverty reduction has been adapted as a central objective of international development cooperation. Second, national governments must take responsibility for poverty reduction within their countries by developing nationally owned poverty reduction strategies, to be called a Poverty Reduction Strategic Papers (PRSP). Third, donor countries, which are also the main creditors,

must selectively focus their aid and debt relief on those countries that have good poverty reduction policies, and a system of governance for formulating and implementing policies and mobilizing and managing public resources. Donors must work with these countries in a spirit of development partnership. Fourth, different donors will increase the coordination of their financial support within countries, reduce high transition costs of their activities, and align their support behind national priorities and strategies. Fifth, rich countries must increase the coherence of international policies to support poverty reduction in the poorest countries by providing greater market access for products from poor countries.²³

The PRSPs are meant to be country specific and should vary between countries. They are expected to describe the participatory process used in their preparation, and include three core elements; first, poverty diagnosis; second, targets, indicators and monitoring systems; and third, priority public actions over a three year period. The short term PRSP should be based on long term development strategy, containing long term vision of national objectives. The following issues need to be addressed in the strategy: (i) the nature of the growth mechanism underlying the development process, including accumulation of physical and human capital, and productivity growth through an increasing division of labor, (ii) technological progress and structural change, as well the efficiency of resource allocation; (iii) the type of structural transformation which may be encouraged as the economy grows; (iv) the sources of finance for productive investment; (v) the role of trade in the development process; (vi) the mechanism for promoting enterprise development and learning environment sustainability; (vii) and the generation and sustainability of livelihood for all sections of the population.

CHANGE IN THE WTO NEGOTIATING PROCESS

The developing countries have to endeavor to bring changes in the negotiating process in the WTO so that there is greater transparency and wider participation of developing countries in the negotiations. Discussions in small groups for the purpose of explaining proposals and persuading other countries are a natural process; but for negotiation of the texts of the proposals and agreements, there must be much wider direct participation.

The WTO agreements and their operations are and will be having a profound impact on the economies of the developing countries. Hence, it is imperative that they do not remain indifferent and handicapped but actively participate in the negotiations and other activities in this forum and make themselves effective in its decision-making and operations.

Recommended Tasks Ahead for Developing Countries

IMPLEMENTATION OF THE WTO AGREEMENTS

The implementation of the agreements involves: formulation of legislation and procedures, establishment of institutions and machineries, removal of certain import control measures and sending notification to the WTO. Some of these actions would have been undertaken by now, whereas some others may have to be taken up in the near future. One important task of developing countries in all this is to explore the options for implementation, so that the adverse effects are minimized and benefits are maximized.

REVIEW OF SOME PROVISIONS OF THE AGREEMENTS

The reviews of some provisions of the agreements will involve serious negotiations. The more important among such reviews are in the areas of subsidies, anti-dumping and services. In the area of subsidies, the provisions relating to non-actionable subsidies, export competitiveness of developing countries and presumption of serious prejudice will be covered by the review. In the anti-dumping area, the restriction on the role of panels will be reviewed to see if it should be extended to other areas. In the services area, the review will cover the current exemptions from most favored nation (MFN) treatment. The working of the provision relating to the negotiating right of small exporting countries will also be subject to review.

CONTINUING NEGOTIATIONS IN SOME AREAS

Important new negotiations will take place in the areas of agriculture and services. In agriculture, the negotiations should cover the reduction of protection and subsidies. In services, the negotiations will be in two areas, viz., one, for further liberalization of services sectors in terms of market access and national treatment; and two, the three subjects on which disciplines have not yet been worked out, viz., subsidy, safeguard and government procurement.

CONCLUSION

The proposition that globalization makes states unnecessary is even less credible than the idea that it makes states impotent. If anything, the exact opposite is true, for at least three reasons. First, the ability of a society to take advantage of the opportunities offered by international economic integration depends on the quality of public goods, such as property rights, an honest civil service, personal security, and basic education. Without an appropriate legal framework, in particular, the web of potentially rewarding contracts is vastly reduced. This point may seem trivial, but many developing economies have failed to achieve these essential preconditions of success. Second, the state normally defines identity. A sense of belonging is part of the people's sense of security, and one that most people would not want to give up, even

in the age of globalization. It is perhaps not surprising that some of the most successfully integrated economies are small, homogeneous countries with a strong sense of collective identity. Third, international governance rests on the ability of individual states to provide and guarantee stability. The bedrock of international order is the territorial state with its monopoly on coercive power within its jurisdiction. Cyberspace does not change this: economies are ultimately run for and by human beings, who have a physical presence and, therefore, a physical location.

Globalization does not make states unnecessary. On the contrary, for people to be successful in exploiting the opportunities afforded by international integration, they need states at both ends of their transactions. Failed states, disorderly states, weak states, and corrupt states are shunned as the black holes of the global economic system.

What, then, does globalization mean for states? First, policy ultimately determines the pace and depth of international economic integration. For each country, globalization is at least as much a choice as a destiny. Second, in important respects - notably a country's monetary regime, capital account, and above all, labor mobility - the policy underpinnings of integration are less complete than they were a century ago. Third, countries choose integration because they see its benefits. Once chosen, any specific degree of international integration imposes constraints on the ability of governments to tax, redistribute income, and influence macroeconomic conditions. But those constraints must not be exaggerated, and their effects are often beneficial. Fourth, international economic integration magnifies the impact of the differences between good and bad states - between states that provide public goods and those that serve predatory private interests, including those of the rulers.

The global information economy imposes its own global rule and thus the role of nation-states shrink, and many of its function have been taken over by private corporations. Global corporations continue to strengthen their political voice and clout, and directly enter into partnership with local elites and local governments, often bypassing the host governments as well as their own governments. National sovereignty is further curtailed by supra-national institutions like IMF, WB and WTO. There is a need for fundamental reforms of policy and practices at both the international and national level to achieve sustainable development. The operation of major global economic actors like transnational companies, international banks, the WB, IMF and the WTO should be much more accountable to the public, and indeed to the governments. The recent trend of weakening the UN in global economic and social issues, in favor of Bretton Woods institutions and the WTO, should be reversed.

Finally, as the world economy continues to integrate and cross-border flows become more important, global governance must be improved. Global governance will come not at the expense of the state but rather as an expression of the interests that the state embodies. As the source of order and the basis of governance, the state will remain in the future as effective, and will be as essential as it has ever been.

WORD COUNT = 8,279

ENDNOTES

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²² M. Monwarul Islam, "Globalization and Future of Poor Countries", The Independent, 6 July 2002; available from <<http://www.globalpolicy.org/globaliz/econ/2002>> Internet accessed 1 October 2002.

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