GLOBALIZATION AND THE STATE:

Some Awkward Corners

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I. INTRODUCTION[1]

Definition

"The benefits and opportunities of globalization remain highly concentrated among a relatively small number of countries and are spread unevenly within them. In recent decades an imbalance has emerged between successful efforts to craft strong and well-enforced rules facilitating the expansion of global markets, while support for equally valid social objectives, be they labour standards, the environment, human rights or poverty reduction, has lagged behind."

Report of the Secretary General – the Millennium Assembly

Despite the wealth of material written and analysis regarding globalization, the concept is still elusive. Each author, or school of thought, when attempting to give his or her own definition of the process, and description of the phenomenon, runs the risk of upsetting someone else's viewpoint or attributes describing globalization. Antony Giddens would like to see globalization as a complex set of processes, not a single one, that are political, cultural, technological as well as economic (Reith Lectures, 1999, and Runaway World, 2000). He chides both the skeptics, who dispute its whole existence, and the radicals, who see its presence everywhere, for being unduly bound by economic arguments and terminology. Another observer of the process, Gerald Helleiner distinguishes between what he deems are two totally different phenomena. (Can the Global Economy be Civilized? 10th Raul Prebisch Lecture, 2000). The first, the shrinkage in space and time that the world has experienced as a consequence of the technological revolutions in transport, communications and information processing, and the second, that relates to matters of human policy choice. It is this human policy co-efficient of globalization that gives rise to the continued controversy, and is least understood. At the broadest level, globalization has been defined as the growing interdependence and interconnection of the modern world (Eliminating World Poverty: Making Globalization Work for the Poor, White Paper on International Development, UK, 2000).

Initial Paradoxes

The matter of definition or how one conceptualizes the process, and boundaries, of globalization is not a pedantic whim. If one defines economic globalization purely in terms of shares of trade in the GDP, then not only this is inadequate because private investment flows, or Foreign Direct Investment, FDI, are not taken into account but it can also lead to misleading results. For example, for the recent period, 1997, the share of exports to GDP for developing countries was higher, at 28 percent, for Low human development countries, than for High human development countries, at 20 percent (Human Development Report, UNDP, 1999). Indeed for some African countries, including Cote d'Ivoire, Nigeria, Gabon and The Gambia, the share of trade in GDP, was much higher, as high as 65 percent, than the United States of America, at 12 percent, and Japan at 10 percent. The implication being that on trade flows to GDP ratio, African countries

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appear more "globalized" than the USA or Japan. The absurdity of this is easily explainable for in the case of poor African countries, heavily depended on one or few tradable commodities, shares of trade to a low GDP gives unusually high exposure to international commerce. Such a quandary can be resolved, in a manner which will be in line with common sense, if the narrow definition of globalization goes beyond the confines of flows of trade, or investment, in GDP and considers the ability of countries to exercise a "policy will" or policy choice. Surely, the ability to manage the process of globalization, and for a State to retain its integrity and capacity to effect a social and economic policy agenda, is a more telling attribute of whether a country is integrated or not in the global economy.

Paradoxically, the more a country is able to exercise its sovereignty, with respect to economic and social policies, the more it may be deemed as successfully integrated in the world economy. This is arguably the case with OECD countries and for some of the newly industrialized economies in East and SE Asia. By contrast, the more passive or unable to exert such an influence the more marginalized or de-linked. In this light, developed economies with a strong state driving the social and economic agenda are more globalized than developing countries with a state that still has to exert its full authority over the process, irrespective whether the latter enjoys higher trade to GDP ratios, or flows of FDI. It is the capacity to determine and use the policy instruments in line with agreed policy objectives that measures the ability of the state to function in a globalized world and not any single, or group, of indicators that may vary from time to time and from country to country.

The other paradox is that comparative advantage, and country specialization, in the Ricardian, or classical, sense seems to apply in a skewed way. Notably, that primary producing, and especially the Least Developed Countries, are more prone to specialization than developed ones. Yet would not the expectation be that the countries that entered international trade first, and began exchanging their wares, would have time to refine their specialization more than late comers? It is not, however, the early trading and industrial states that have advanced the cause of international specialization but the late-comers, and the countries that are currently striving to develop. The final observation in these introductory remarks is that our notion of globalization is a relative one. This is intuitively, and priori, so partly because globalization involves concepts of space, time and uncertainty that in themselves are relative. Time and uncertainty have an irreversibility regarding the past, and an unknown quality regarding the future that will always maintain globalization as a threatening concept irrespective of past experience. However, the suggestion that globalization is a relative concept is not a mere abstraction, in that it is likely that the way we view and interpret globalization in a few years, or decades, will be different from the way we do to day. And this relative posture depends much on prevailing social and economic paradigms and how effective countries, and inter-governmental processes, are in taking stock of two effects that globalization may engender – uncertainty and convergence.

II. GLOBALIZATION, INEQUALITIES AND CONVERGENCE

Inequality and Growth

The division between "the haves" and "the have not", as Cornea, and the Human Development Report, 1999, have demonstrated, has risen. (Giovanni Cornea, Liberalization, Globalization and

Income Distribution, WIDER, March 1999.) The pattern of increase in income inequality during the 1980s and 1990s, notably during the period of intense external liberalization has been consistent. The Human Development Report for 1999, page 39, has reported that for most OECD countries income inequalities increased. Similarly, and especially in the early stages of the transition from command to market economies most of the economies in transition experienced an increase in income inequality as captured by the Gini coefficient (HDR, 1999, p.92). It is interesting to note here that the process was by no means uniform.

Some of the transitional economies, including Poland and Hungary, were able to shield their people from the worse excesses of inequality – and more impressively they were able to do this during the intermittent recessionary periods of the 1980s to the mid 1990s. The overall concern of poverty in the midst of plenty has been discussed extensively by the World Bank's Development Report, Attacking Poverty, 2000, and summarized in the BOX 1.

In the areas of income distribution and economic growth the impact of external liberalization has been mixed. Work by Professor Lance Taylor, and his colleagues, for a number of different countries strongly suggests that the effects of globalization and liberalization have not been uniformly favorable (Opening Markets, Closing Doors to the Poor, Social Development Review, June, 2000). From some dozen and a half cases surveyed, only one, Chile post 1990, had an unequivocal growth and distributional benefits out of external liberalization. Two thirds of the countries had rising inequality and four others, including Argentina, Paraguay, Russia and Zimbabwe, managed to get the worst of all possible worlds, namely declining growth and worsening income distribution. Similar evidence, for a decelerating economic growth with the deepening of external liberalization is given by Jose Antonio Ocampo, Executive Secretary,

BOX 1. POVERTY IN AN UNEQUAL WORLD

The world has deep poverty amid plenty. Of the world's 6 billion people, 2.8 billion – almost half – live on less than $2 a day, and 1.2 billion – a fifth—live on less than $1 a day, with 44 percent living in South Asia. In rich countries fewer than 1 child in 100 does not reach its fifth birthday, while in the poorest countries as many as a fifth of children do not. And while in rich countries fewer than 5 percent of all children under five are mal nourished, in poor countries as many as 50 percent are.

This destitution persists even though human conditions have improved more in the past century than in the rest of history – global wealth, global connections and technological capabilities have never been greater. But the distribution of these global gains is extraordinarily unequal. The average income in the richest 20 countries is 37 times the average in the poorest 20 – a gap that has doubled in the past 40 years. And the experience in different parts of the world has been very diverse. In East Asia the number of people living on less than $1 a day fell from around 420 million to 280 million between 1987 and 1998 – even after the setbacks of the financial crisis. Yet in Latin America, South Asia, and Sub-Saharan Africa the numbers of poor people have been rising. And in the countries of Europe and Central Asia in transition to market economies, the number of people living on less than $1 a day rose more than twenty-fold.

Source : World Bank Development Report, 2000

ECLAC, for Latin America. (Rethinking the Development Agenda, American Economic Association, Annual Meeting, 2001). In all, in so far as external liberalization is an integral component of globalization this has had an adverse impact on income distribution, both in OECD and non-OECD countries, though the effect itself could have been contained through suitable social policies.

There is the argument that economic growth itself is the best antidote for lifting people out of poverty. One need not dispute the importance of economic growth as a precondition for creating additional resources, jobs, and revenues for social protection that can support pro-poor or more egalitarian policies. Yet, this begs the question whether external liberalization in its extreme form, including no capital controls and using monetary policy as a prop to exchange and interest rates, can deliver high growth. It may be noted that a given growth rate can be associated with different patterns of income distribution, some more equitable than others, which in turn can make a significant difference to the pace at which progress against poverty can be made. Social choice, namely, whether to will a more or less egalitarian system of income distribution, and by extension whether to combat poverty actively or passively, is very much in the realm of good governance and of an effective state. Weak states compromise their capacities, and social agenda, by defining stability, or soundness, exclusively in terms of means, such as targeting exchange and interest rates or external and internal balances as ends in themselves, while effective states not only distinguish where the ends and means lie but how to promote the former through the latter.

In the period between 1986 and 1996 FDI grew about 600 percent while domestic investment by some 200 percent (The Economist, November 22 1997). At the end of 1996 the total stock of FDI was estimated at around US $ 3 trillion. The Secretary- General's Report, <u>Financing for Development, 2000,</u> notes that during the period 1993 to 1998, 20 countries accounted for over 70 percent of all FDI inflows to all such countries. Further, that the majority of low-income countries have been largely bypassed by private finance from abroad – least developed countries as a group received 0.5 percent of world FDI inflows in 1999 (<u>Financing For Development, 2000</u>, para 53).

<u>Africa</u>

Firms from developing countries themselves increasingly invest abroad. FDI from developing countries increased from 2 percent of total FDI outflows in the early 1980s to 10 percent at the end of the millennium. For African countries this is a double whammy. Not only the inflow of FDI is miniscule, especially outside primary commodities, but it has been estimated that 40 percent of African private wealth is held overseas (<u>Eliminating World Poverty</u>, UK, 2000, para. 153). Foreign Direct Investment, FDI, into Africa has been absolutely small and decreasing relatively. UNCTAD estimates suggest that annual average flows of FDI into Africa increase in absolute terms from US $ 4.6 billion, 1991-95, to US $ 9 billion, 1996-99 (Investment Climate and FDI Trends in Africa; A Note by the UNCTAD Secretariat to the ECOSOC, Africa Forum for Investment, July, 2001). In relative terms, however, the Africa's share in global FDI has declined from a yearly average of 1.9 percent, 1990-94, to about 1 percent in 1999. Outside South Africa, FDI is even more skewed towards natural resources, including petroleum and mining, and to a smaller degree is due to the growing impact of privatization for the attraction of FDI.

In addition, for many of the African countries, Official Development Assistance (ODA) declined precipitously during the 1990s – in many cases by more than fifty percent. For example, between 1992 and 1998 ODA received by Lesotho declined from US $ 143.4 m. to US $ 66.2 m., Kenya from US $ 885.6 m. to US $ 473.9 m., and The Gambia from US $ 110 m. to US $ 37.8 m. On a per capita basis the decline was even faster, in the case of The Gambia by two thirds, because of population increase (Human Development Report, UNDP, 2000). Nearer home, in the UN system, the UNDP Administrator's Business Plans, 2000-2003, pointed out that of all ODA flows to developing countries only 3 percent is channeled through UNDP. If present funding levels persist, programme resources for sub-Saharan Africa may soon be only one third in real terms of what they were in the early 1990s.

Even if one argued that Africa is a special case, there is little doubt that the biggest challenge for globalization and the State lies there – and evidence to-date shows no perceptible improvement. It is also no coincidence that the 1990s were declared by the UN system as the decade of Africa, and that currently the UN Secretary General has a special initiative on Africa to underscore the urgency of the crisis. Yet these initiatives face an uphill struggle for not only FDI into sub-Saharan Africa is tiny but ODA, which acts as a complement to FDI, is also on a secular decline. Given these trends, compounded by the adverse changes in external debt and the price of primary commodities, it should not come as a surprise that poverty has been increasing, both absolutely and relatively, in many parts of sub-Saharan Africa, including the three countries mentioned above. Growth rates of 3 to 4 percent annually, which veer on the generous side, are simply not sufficient on present population trends and inequality coefficients to lift sub-Saharan Africa out of poverty in the foreseeable future. Globalization defined as external liberalization, and trade interdependence, has been there for sometime yet it has failed to induce the necessary response. Foisting "whole-sale" external liberalization on weak states does not embolden them but takes away any potential policy instruments for social and economic change in the hands of Government. The disappointment with inadequate growth rates, during the 1980s and 1990s, is far wider than the sub-Saharan experience. On this see the Social Dimensions of Macroeconomic Policy, UN- Executive Committee on Economic and Social Affairs, EC-ESA, 2001.

The following Box 2. Poverty in a Poor Country: The Gambia, brings home the extent to which poverty may intensify even when there is considerable progress with the usual macroeconomic balances, and the country qualified for debt relief under a Highly Indebted Poverty Country, HIPC, loan relief. In this instance, inflation rates were subdued, interest rates positive, there was no parallel market in the currency and there has been a declining budget deficit to GDP – all usual criteria of fiscal and monetary prudence. Yet, in the middle of this long term initiative with market-led reforms, including domestic and external liberalization, there has been a significant increase in poverty – estimated by the national statistical office to be over 50 percent in less than a decade, 1992 to 1998. In the key findings, the authors of the Report, 1998 National Household Poverty Survey, candidly noted that past macroeconomic policies have not favored the poor, with the agricultural sector particularly hard hit by the removal of subsidies and low market prices for groundnuts – the country's major foreign exchange earner.

BOX 2.---Poverty in a Poor Country: The Gambia

Background

The 1998 National Poverty Survey Report is based on a nationwide poverty survey, which was conducted in March and April of 1998 by the Central Statistics Department. The report is an integral element of the National Poverty Monitoring System which is designed to track selected socioeconomic indicators at the household level in order to establish the incidence, nature and characteristics of poverty in Gambia.

Key Findings

- In the Gambia, the poor constitute 55 per cent of households and 69 per cent of the population. A significant proportion of households (37 per cent) and persons (51 per cent) are extremely poor, meaning that they lack the minimum amount of income required to sustain a minimum standard of living.
- Over half of the children in the country live in poverty, with the majority residing in the rural areas.
- Poverty has increased considerably – about 52 per cent overall – between 1992 and 1998 when two poverty surveys were conducted with farming households bearing the brunt of this increase.
- Wide variations exist in the incidence of poverty between households and persons in different geographical locations with 60 per cent incidence in the rural areas, compared to 13 per cent in Greater Banjul and 28 per cent in other urban areas.
- Households engaged in medium and large-scale groundnut production in rural Gambia have the highest incidence of poverty among all socioeconomic groups at 85 and 80 per cent respectively.
- Although poverty is lower among female headed households, women – in particular, poor women – consistently are worse off than their male counterparts in all spheres of human development.
- Households in the highest income quintile have incomes 13.8 times that of the lowest income quintile, translating into a high level of inequality particularly in the Greater Banjul Areas.
- Poor households in The Gambia spend more than two thirds of their income on food most of it on staples such as rice and other cereals.
- Most poor persons are economically active in the Agriculture and Fisheries sub sector where average incomes are invariably the lowest across all industry categories.
- Average earnings of men are consistently higher than those of women regardless of poverty status and type of occupation.
- Child labour is widespread especially among extremely poor households, with a higher proportion of girls than boys engaged in some form of economic activity.
- Past macroeconomic policies have not favoured the poor, especially those in the rural areas of the country, with the agricultural sector being particularly hard hit by the removal of subsidies and low world market prices for the country's major foreign exchange reserves.

SOURCE: 1998 National Household Poverty Survey Report, Government of The Gambia, June, 2000

The case of The Gambia illustrates a dilemma that confronts other developing countries, especially in Africa. Domestic and external liberalization, which are said to be the main preconditions for economic globalization, may not bring the warranted response in terms of higher investment, including FDI, expansion in output, increase of employment and reduction of poverty. Indeed, it may mean that the country increasingly relies on one commodity, for its export earnings, which in the case of The Gambia is groundnuts - an extremely precarious way to forge sustainable development. It would only take a season or two of bad harvests or poor prices, set by the international market, for thousand of families to sink into destitution.

Hence, at a time when developed economies protect their agricultural sectors, both by subsidies and tariffs on imports, and encourage the pile up of strategic crops, developing countries hone their competitive skills partly by sacrificing food security. But the competitive skills and comparative advantage that developing countries can display, and are encouraged to refine, only makes sense if there is a market for their products or the market is not rigged. A major part of the tragedy of taking away subsidies from food production is that inadvertently it has further disenfranchised womenfolk in Africa, for they are the ones traditionally concerned with subsistence farming, and food production for the family, while menfolk are more concerned with cash crops.

We do have enviable examples, even from Africa, where developing countries can globalize successfully – but these are rare. One such example is Mauritius, see Box 3, where by a prudent but proactive management of the economy, various constraints, including size and paucity of natural resources were overcome for the country to embark on a successful path of managing globalization.

BOX 3 – MAURITIUS – GLOBALIZING FROM STRENGH

Mauritius a small island developing state, SIDS, of just over a million has demonstrated what is possible to be achieved, in the area of external liberalization, within a span of a generation, and with the active participation of all the social partners. Since Independence in 1968, it has moved from a primary mono-crop economy, with unsustainable population growth, large labour surplus and low income into a diversified, including manufacturing, tourism, and financial services, high employment economy, with a steady rise in living standards. Income per capita has increased five times since 1975, from US $ 700 to US $ 3730, life expectancy at birth is about 72 years, the literacy rate is 86 percent, and the vast majority, over 90 percent, of the population has access to health, sanitation and potable water. Among the major factors that account for this enviable performance is the right mix of state and private sector intervention, a strong commitment to political pluralism and to social partnership, universal access to education and health, and a judicious management of the economy. The openness of the economy was a well thought strategy in the entire framework for development and not a substitute for it. High investment and savings ratios, universal access to heath and education, and a strong compact with the social partners preceded external liberalization and continued after that. It was also realised that the fostering of productivity and competitiveness does not come about purely by opening up the economy - it needs nurturing. This has been done by a series of measures, acceptable to the social partners, and reinforced recently by setting up a National Productivity and Competitiveness Council. Mauritius, despite its size and modest resources, is actively engaged in regional bodies such as the Southern Africa Development Council, SADC, and is well connected with regional economies, including those of the Indian Ocean Rim. It has actively sought to serve as a bridge between Asia and Africa and to facilitate trade, investment and services in both directions. Hence, its public policy is not purely reactive to change but outwardly focused and proactive – including cultivating capacities in managing globalization. This element of policy will, and developing capacities to manage change, including globalization, is by far the most telling aspect of the country's demonstrable success.

Source : Human Development Reports, 1999 and 2000, and the UN Country Cooperation Framework, 2001-2003.

On Convergence

On the subject of convergence there are several issues at stake. On the economic front, it may be asked whether there has been convergence and whether this convergence is the outcome of an external opening of the economies as captured by globalization? There is little doubt that examples of economic convergence can be found within strong economic groups – Ireland within the European Union is a case in point. However, there are also examples of divergence in economic performance, for instance East Asia compared to Africa, arguably such divergence is more pronounced than any convergence within the groups. Where convergence is observed, the question may be asked whether this is the result of globalization, and the operation of the classical trade theory, or whether other factors, including social capital, strong domestic infrastructure, and investment in education or the home market rather than gains from trade. The gains from trade are real enough but the other components of demand namely investment, innovation and home consumption, cannot be neglected. In all, there seem to be strong complementarities between globalization and the other inputs for development, but the sequencing often begins from strengthening domestic factors, including education, social capital, the home market, and good governance practices before globalizing.

Asymmetries in convergence multiply when such other components of globalization, as the social, cultural and technological factors are let out of the bottle. There is no proportionality in convergence. The economic, social and cultural components may come increasingly as a package – and not all the constituent parts have the warranted or desired proportions. It seems that technology is packaged with the end product in mind, where for example purchasing technology for voice or video may imply that the other features, software et cetera, also come from the same origin. Global media networks expanded their reach, and were radically facilitated, by new technologies including satellite communications. In the popular culture and entertainment business, including, music, cinema and dress code, globalization is not really spreading talents and products, from various sources, evenly but showing a strong cultural bias and production monopolies are already appearing. The Human Development Report, UNDP, 1999, quotes Mahatma Gandhi on this, which is worth repeating:

" I do not want my house to be walled in on all sides and my windows to be stuffed. I want the cultures of all lands to be blown about my house as freely as possible. But I refuse to be blown off my feet."

(HDR, 1999, page 33)

The same point was made by Keynes, some seven decades ago, in a lecture given in Dublin, that has become famous;

" Ideas, knowledge, art, hospitality, travel – these are things which should by their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible; and above all, let finance be primarily national."

(Keynes, cited by J.Micklethwait and A. Wooldridge, A Future Perfect, 2000.)

It has been said that Keynes took a benign attitude towards international trade subsequent to 1945, and in his support in creating the Bretton Woods institutions. His belief, however, that policy instruments, both fiscal and monetary, should remain in national hands and that domestic priorities should take precedence, over external liberalization, never wavered. When two oceans meet, they do not set their boundaries – we do. When external openness proceeds, and globalization is under way, the effects - economic, social cultural and political, either intentionally or by default - come as a package. Yet decisions have to be made by the recipient countries on what to accept and what to place aside or reject. Much of economic theory, and especially the neoclassical ideas on external liberalization, will not help in deciding on this. Hence, the very ideas, i.e. the neo-liberal views, and economic factors that push strongly for globalization or for unconditional openness are the ones bereft of guidelines as to where to draw the line in that package of economic, social and cultural brew called globalization. And here is another paradox – both parts of the radical left and the radical right seem to agree that culture at core is an economic commodity, just like any other. The left condemns it and the right praises it.

Countervailing forces, for example from civil society, have emerged. The bigger NGOs are transnational now, and can match the nous, if not the hubris, of any transnational on the corporate side. Inter-governmental processes, especially those of the United Nations, are increasingly taking these developments into account. The Global Compact of the Secretary General is an expression of the need of in-cooperation of all elements of civil society at the global level. These countervailing initiatives are partly a reaction to any attempt at monopolizing the agenda for development, but in part they take on their own momentum and as such they are a new force to be reckoned with.

III. INSTITUTIONAL STRUCTURE AND POLICY MAKING

"Our runaway world does not need less, but more government - and this, only democratic institutions can provide."

Antony Giddens, Runaway World,, 2000, p.100

Economic globalization, or in this case external liberalization, reduces the degree of autonomous use of policy instruments by developing countries. Indeed, it is this trade-off between national sovereignty in the use of policy instruments and the openess of the economy that endangers even further the meagre capacities of many developing countries in pursuit of their social and economic objectives. The United Nations EC-ESA Report on Social Dimensions of Macroeconomic Policy, 2001, states this dillemma as follows :

"Countries operate in a world economy where market players everywhere immediately scrutinize domestic monetary, financial or fiscal policy decisions and the performance of exchange rate regimes of individual countries. Under these conditions, the room for maneuver of plicymakers has become considerably constrained."

United Nations, Social Dimensions of Macroeconomic Policy, 2001, page 2.

The concern on what to do about the institutional and policy response by developing countries, in an era of globalization, has been the subject matter of successive Meetings of Experts on the

UN Programme in Public Administration and Finance. Since these reports are published, and readily available, there is no need to cover them in any degree of detail. Suffice to note that the reports for the XIV Meeting of Experts, E/1998/77, 1998, and XV Meeting of Experts, E/2000/66, 2000, deal, in particular, with concerns of capacity deficit, the state as a learning organization, and how to widen citizen participation and galvanize support for broadly shared objectives. In abstract these concepts lose their potency. In real life, however, they make sense in an approach, such as the ones taken by the experts at these meetings, to reject the one-size fits-all solutions and to rely on a case by case or country by country basis. For example, the XV Meeting of Experts emphasize the importance to building national capacities to diagnose and evaluate the country's needs with the following:

"...Each country must elaborate its own types of responses institutionally and operationally, in order to maximize the benefits and minimize the negative consequences. Clearly, neither the United Nations nor any other inter-governmental organization, can give a one-size fits-all solution, but can suggest and/or propose potential strategies and reform paths through methodological approaches and tools that seek to uncover what are the essential functions that the State needs to fulfill, at what level and to what extent. These questions can be suitably answered not in abstact or aggregate but only in relation to the private sector, the national and international economic environment" (E/2000/66).

The same Meeting emphasized the need to create an enabling framework for the empowerment of citizens and their participation in democratic governance; promotion and faciliation of social dialogue both at the national and international levels. Within this, it advocated several responses including ways to learn from global experience, decentralized decision making and focal points in departments to interface with the public. Obvious points perhaps, but nonetheless just as important. Another source indicating the diversity of policy responses to globalization that can coexist, is the Human Development Report, UNDP, 1999 – and especially chapter four that deals explicitly with "National responses to make globalization work for human development".

Anyone with work experience in developing countries will recognise these as pressing concerns, in particular, the capacity deficits, the problems of morale and motivation, the lack of openess, transparency and want of proactivity. All these are matters of degree, and may be equally found in developed countries, but what hits developing countries especially hard is not only scarcity of resources, and ability to retain the best and brightest in the public sector, but also the reduction, retrenchment and downsizing of the public sector during the hey day of market-led reforms. The way those reforms were carried out, in many developing countries, were too rushed, indiscriminate, and short sighted. For example, in addition to ghost workers, necessary posts also disappeared or were starved of funds. On occasion the reforms did bring about improvements such as medicines in hospitals, and chalks and paper in schools. Retrenchment and compression of salaries, however, were such that there were not sufficient pharmacists to dispense the drugs, or teachers to teach. This was even more critical at the technical and upper echelons of the civil service where there were permanent shortages either because of lack of funds or because of poaching by the private sector. Whatever teams, or critical mass of professionals may have been built within the public sector, they were badly hit by the cutbacks. Thus the era of globalization finds many developing counties not only with fewer policy intruments but also with serious gaps in their public sector professional cadre. And despite all claims to the contrary, in most developing countries the public sector has not ceased to be the employer of the last resort, because increased unemployment and job scarcity generate irresistible pressures on governments to act in anyway they can.

A very disturbing phenomenon in contemporary policy setting in many developing countries, especially in Africa, is the spectacle of inordinately high real interest rates in an effort to defend the currency or entice foreign banks to buy the public debt. It has not been unusual to see interest rates, charged by the banking sector in excess of twenty percent, when the rates of inflation are below ten percent – the other big spread is between borrowing and lending by the banks. The reason given for this is that monetary authorities use the interest rate as a means to prop up the exchange rate or as a means to regain confidence – and sometime in the process manage to lose both.

Ghana, is a case in point. Between 1999 and 2000, the value of the national currency, the cidi, vis as vis the dollar declined by half when real interest rates climbed rapidly. The irony of this situation is that the banks find it more profitable to lend to the Government so that the domestic debt of Government baloons, while the private sector is starved of funds and long term investments are forfeited. There are two points to be made on this: First, interest rates manipulation, the prefered choice of neo-liberal policy setters, loses its potency when it is used too frequently in an externally opened economy to regulate the domestic economy and to maintain confidence in the currency. Second, perverse results may be obtained when high interest rates used to regain confidence in the currency fail to do, and in the process only manage to starve the domestic private sector out of funds.

Perhaps globalization has lulled policy makers into thinking that as capital, especially at the short end, is so mobile the only thing that matters is timing, and the swift adjustment of interest rates. Nothing is further from the truth. Increasing frequency and dependence on interest rates blunts its impact, and without a concerted use of all policy tools, including fiscal instruments and broad-based agreements between labour and employers, developing countries are unlikely to secure their employment and poverty reduction objectives. Indeed, it is this trade-off between national sovereignty in the use of policy instruments and openess of the economy that endangers even further the meagre capacities of many developing countries. As the UN report on the Social Dimensions of Macroeconomic Policy, 2001, page 12, pointed out "Macroeconomics still owes the world a systematized and common view on how to prevent new sources of systemic risks that appeared with financial globalization".

Economic globalization is related to larger capital mobility while labour mobility is limited – indeed often restricted by stringent visa or other requirements. Hence, there is a disjoint between swift capital movements in search of high returns and the growing income disparities between labour across national borders, and skilled and unskilled labour within a country. As with the slowness in globalizing the social agenda, the avowed beneficial effects of external liberalization is lopsided – facilitation on the capital account and of financial transactions, while restrictions and impediments in the movement of labour. Increasingly, concerns for tax competition among developing countries are receiving attention for on one hand, it encourages a race to the bottom, in the quest to attract FDI, and on the other, it progressively shifts the tax burden from corporations, and capital, to labour and to the household budget.

IV. EMERGING CONCERNS

"Where there are no rules, the rich and the powerful bully the poor and the powerless. In a globalizing world, poor countries need effective, open and accountable global institutions where they can pursue their interests."

Eliminating World Poverty: Making Globalization Work for the Poor,
White Paper on International Development, UK, 2000

"As the new century dawns, there can be no task more urgent for the United Nations than that fixed by the Millennium Summit, of rescuing more than a billion men, women and children for 'abject and dehumanizing poverty'. At the Summit Governments also agreed that the benefits of globalization, required concerted action, at both national and international levels, and cannot be left to the operation of market forces alone."

Opening lines of the Secretary–General's Report on Financing Development, 2001

One of the strong messages that comes out of this presentation is the rejection of the one-size fits-all kind of analysis and the embrace of more comprehensive models where diversity matters, and especially the kind of diversity found in culture, institutions, capacity deficits, civil life and priorities appropriate to developing countries. If this is the case, that is, if local conditions can give different responses to the same policy incentive, with the implication that policy inputs have to adapt to local conditions, then anything that may be said a priori about practical implications would appear as second best. These points are accepted yet it would not invalidate an attempt, as in this final section, to set out some of the conclusions and emerging concerns.

First, there is a strong case that the attributes that characterize the world to-day, and especially developing countries, are much more complex and affected by uncertainty generated by external liberalization, where strong players both in civil society and the corporate world are filling the vacuum that the state and the public sector have left.

Second, already the corporate parts of society, and in particular Transnational Corporations, straddle different countries, and increasingly the bigger NGOs aspire to similar transnational access. This implies a disconnect, or an asymmetry, between the ability of transnational corporations to be flexible and shift resources, and allegiance, and a public sector that has no cross-border jurisdiction. This may be called the newly found "fungeability" of the public sector's development partners in their ability to shift resources, and priorities, in and out of national territories;

Third, uncertainty is said to be a key attribute, vide Giddens, of the new globalized world. However, this is not uncertainty caused only by the rapid technological, and value changes. It is an uncertainty that arises because policy instruments, be they fiscal or monetary, have been compromised when there are more interests to satisfy without these being stakeholders of the process. For example, at a time of swift capital movements, and the opening of the short and long term external accounts, interest rates must satisfy not only domestic objectives but also the demands set by international markets;

Fourth, as a technical aside, it may be noted that Frank Knight, University of Chicago, and Maynard Keynes, Cambridge University, in the 1930s, came much closer in treating uncertainty in economic and social life, and in policy making, with the seriousness and weight that it deserves than any other, and contemporary, social and economic analysts. In this respect, at present, our policy tools show all the signs of having been fashioned in an earlier era. Moreover, when dealing with the interaction of uncertainty with policy making our understanding is woefully limited. Hence, the paradox that though the consensus opinion argues that uncertainty has increased in the context of governance, no less because of globalization, the seminal work on this topic has been done before the era of globalization;

Fifth, this paper pointed out that globalization has increased the pace of change, complexity and ambiguity, making new demands on the public sector cadres for which many are ill prepared. The warranted response to these developments, argued here, is in terms of empowerment, capacity building, and networks between pluralistic organizations both at the domestic and at the international levels. A call was made for developing a culture of learning organizations, in order to deal with uncertainty and more to the point to be conduits of the signals and demands placed by an empowered civil society;

Sixth, in this new milieu of learning organizations, which unfetters and rewards the individual, the very definition of a good professional needs rethinking. Certainly, it would incorporate some of the old attributes of a professional, including deep knowledge of his or her subject, placing public interests above private gain, openness, honesty and ability to lead. Yet, there is a new attribute that must complement all the rest – and this is the ability to handle inter-disciplinary issues, be it poverty, gender concerns or the HIV/AIDS pandemic, in a team and indeed in a cross-cultural setting with the implication that the compartmentalization of the normative, analytical and operational aspects of technical cooperation are eliminated. That is to be a good professional in a globalized world is more than being a good economist, engineer or environmental consultant. It implies bringing ones' skill in a setting that would require the skills of different disciplines and where the outcomes will have equally diverse implications and trade off.

All the above, are contrary to the "slash and burn" approach to public sector reform that was said to characterize market-led or neo-liberal initiatives, in developing countries, in the last two decades of the 20th Century. Though, there is little fondness or loyalty by developing countries to repeat of these experiments, it is by no means certain what will replace this version of laissez faire as applied to governance and public institutions. There is, in principle, a kind of contradiction in the calls for the state to withdraw from most social and economic objectives, and activities, in favour of providing an enabling environment. For a weak state is by definition an ineffective state and as such it cannot provide an enabling environment even where it wishes to do so. An illustration of this is that much of the environmental, social and other legislation in developing countries is on the statute books but governments do not have the capacity to implement. How is Government to provide for a transparent, predictable and even playing field for the private sector at a time when its ability to manage, and give leadership, has irrevocably weakened? Hence, it is rather confusing when neo-liberals ask for the withdrawal of the Government from activities affecting the market, when simultaneously are urging the state to provide an enabling environment! An enabling environment is something one builds, preferably on agreed principles, not something that one creates by running away from. A good example of this is the social partnership agreements in Ireland, which brings together government, employers, labour and civil society representatives to agree on a whole host of strategic goals that the market would have otherwise missed. Not only these agreements produced very tangible results and helped the economy to do extremely well, growing at double the average European Union rate, but also, and progressively, the social agenda have been widened to represent those groups in society that otherwise would not have been there. A detailed theoretical critique of the "minimalist" state and of the kind of economics that go with such an abstraction is found in Alexander Kouzmin's, et. al., paper "From Self-Referential Economics to Managerialism and the 'Economic Holocaust' of Downsizing/ Re-Engineering: A Reckoning Begins". (Proceedings of 62 National Conference of the American Society of Public Administration, March, 2001).

In any event, the term enabling environment is more convincing when it has an object – such as an enabling environment for eliminating poverty or more generally dealing with items of a shared agenda. The commitments freely entered into by Governments at international conferences, be it on social, environmental or gender issues, provide such and agenda. The millennium accord of the Secretary-General is a distillation of many of the commitments given at earlier times within the context of a globalized but uneven world. In a way, the ideas put forward in this paper argue for an enabling environment but this is little to do with the use of that term when it implies leave things to the market to the exclusion of everything else.

The basic task is to enable the state to manage globalization, and all its diverse processes, in a manner that is in accord with its own social and economic objectives and in line with the principle of sovereignty. This is not a return to a command economy, as the critics would have it, nor a replay of the controls and restrictions placed by the early version of the welfare state. Democracy, choice and human rights are sacrosanct and the primary guardians against social or economic regression that many fear. But the will to regain the reins of progress, in a world that social commentators describe as runaway, implies a more sensitive and effective governance both at the national and international levels. In this light, globalization becomes a conduit, or a handmaiden, in support of national objectives and can only be judged, as all other means, by its ability to promote both national and international objectives that have been agreed, or ratified, in national assemblies and international forums. It would then cease to be an elusive and impersonal process to be judged by its impact, and more of a critical complement to the means at the disposal of countries in pursuit of their economic and social agendas.