

Globalization and the Nation State:

Erosion from Above

by Sylvia Ostry

**Timlin Lecture
University of Saskatchewan
February 1998**

Introduction

There is a growing view, approaching conventional wisdom, 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 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. The basic problem of policy lag is now different by a quantum degree. There are two clocks ticking: the clock of accelerating interdependence and the clock of domestic and multilateral decision-making. And there is no sign of synchronization evident.

The subject of this talk is erosion from above, by globalization although the devolutionary pressures are not entirely independent phenomena. The challenges presented by globalization have now spawned a new bumper sticker slogan -- the virtual country.¹ This was no doubt inevitable with the earlier success of the famous (or infamous, depending on taste) "end of history" which greeted the fall of the Berlin Wall. In a world of virtual countries, so the story goes, there is only one hegemon -- capitalism. This updated version of the end of history, albeit equally simplistic, does however rest on an important fact which is the growing ubiquitousness and power of the main agent of globalization, the multinational enterprise (MNE). In the first part of my talk I want to sketch out the key features of investment-led globalization. I will then describe some of the implications of globalization for the new international agenda of deeper integration.

But the MNE's, powerful as they are, are not the only new global actors challenging the power of the nation state. The international non-governmental organizations, or INGO's, are also playing an increasingly important role in policy-making, both domestic and international. The

third part of my lecture will highlight some of the main features of this important, but little understood, development.

Finally, in the concluding section, I want to briefly review some of the arguments which question the benefits of globalization. The growing backlash which is now emerging in the rich industrialized countries has not yet spawned a coherent policy response to the deepening integration of the global economy -- not surprisingly since the debate has only begun. But judged in the light of history, it would be unwise to ignore the new signs of discord.

I. Globalization

Almost precisely at the time the Uruguay Round, the eighth round of multilateral trade negotiations since the GATT was established nearly half a century earlier, was launched in September 1986 the international economy was beginning a process of dramatic transformation. The term globalization was first used in 1986 and was spawned by the investment surge of the second half of the decade which involved all the leading countries of the OECD and not, as in the earlier postwar period, just the U.S. Most of it was in capital- and technology-intensive sectors and services. Hence technology flows (as captured from the very inadequate measure of royalties and fees) also exploded, increasing from an annual negative growth rate of 0.1 to 22 percent between the first and second half of the decade. After a slowdown in the early 1990's (because of recession in the OECD countries) investment flows started to pick up again, but this time with a difference. No longer overwhelmingly dominated by the OECD countries of the Triad of Europe, Japan and the U.S., non-OECD countries, especially China, are now increasingly important host and home countries. Further, a new type of "investment", in the form of strategic technology alliances (STA's), also proliferated during the 1980's and 1990's. Although data are scarce, there is enough evidence to show that some, albeit a minority, of these alliances involve both Triad and non-OECD firms.

The growing importance of foreign investment is highlighted by a few facts. In 1995 worldwide sales of foreign affiliates were over \$6 trillion, 30% higher than world exports. Between 1985 and 1996, investment outflows increased by nearly 20 percent, twice the growth rate of exports or output. The total global stock almost quadrupled, from \$679 billion in 1985 it rose to \$3.2 trillion in 1996. Trade and investment are increasingly linked. An estimated one-third of exports are intra-firm but that global average is far higher for capital and technology-intensive industries and 70 percent of technology earning are intra-firm transactions. Thus for the U.S., nearly half of manufacturing exports and over 60% of imports flow within the firm. Once licensing and royalty payments as well as franchising fees are taken into account, a recent estimate for the U.S. suggests that 80% of earnings for goods and services sold abroad are linked to the activities of American multinationals.²

Most of the intra-firm trade is in intermediate goods and reflects the creation of vertical intra- or inter-firm global networks which link different parts of the value-added chain. Even within service industries, rapid developments in information and communication technologies (ICT) have increased tradability and enabled firms to allocate portions of the production process to foreign affiliates. With international rivalry intensifying, global integration of production will grow as firms seek to capture the economies of geographic diversification. Their ability to do so is enhanced by the ongoing revolution in ICT, which is both an enabling factor and a driver (about which more below). Moreover, in industrial sectors where product customization is essential for market penetration, horizontal integration, which involves geographic differentiation of products, is now of growing importance especially in the rich industrialized countries of the OECD. Thus if we think of linkages among countries in terms of successive stages of global integration, the postwar linkages were strengthened by successive rounds of trade liberalization which reduced the border barriers of interwar protectionism; the second was the linkage by vastly increased financial flows spurred by the recycling of the OPEC surpluses of the 1970's and the wave of deregulation

of the 1980's; and the third is investment-led globalization which is leading to global production networks. Hence the use of the term deeper integration.

Before going into some of the policy implications of deeper integration it's worth saying a bit more about the role of the ICT revolution in the globalization process. While previous technological revolutions had profound effects not only on the economy but on the broader society, there is a plausible case for the claim that the ICT revolution is the "biggest technological juggernaut that ever rolled."³ The convergence of information, communication and computer technologies differs 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, on many services industries, including governments, the biggest service provider of all.

In the manufacturing sector or more traditional industrial production which would include services such as transport, wholesale and retail trade, the impact of ICT on both enterprise and industrial organization 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 costs as well as intermediaries such as wholesalers. This shake-out restructuring has proceeded much further in the U.S. than elsewhere but the ongoing job loss 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 loss 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 ongoing vertical integration, as already noted.

The impact of ICT on services has been to increase their tradability -- in effect to make services more like manufacturing. The traditional notion of services highlighted their immaterial, intangible nature which required that they be consumed when and where produced. Because ICT's rest on the "codification" and storage of information, they provide the means of separating by time and space the production and consumption of a large number of service activities such as financial services, consulting and engineering, professional services, international reservation services in air transport and hotels, research and development, education and health services -- and so on. This permits more tradability and more transnational networking à la manufacturing. But, and it's a big but, it's easier to codify information to be embodied in material goods -- dishwashers, robots or cars -- and routine information management tasks in any sector than those "soft" skills crucial to the information services which require talent, creativity and continuous learning. There is thus an inherent tendency to widening inequality in the technology (in entertainment and in financial services innovation, for example, with the "winner takes all" income paradigm). Finally, this move to a new growth trajectory driven by the soft rather than the hard side of ICT clearly enhances the comparative advantage of the U.S., for a variety of reasons including its dynamism, flexibility, and English language. This strongly affects the policy dimensions of deeper integration, a subject to which we now turn.

II. The Deeper Integration Policy Agenda

The "shallow integration" of the GATT was focused mainly on transparent border impediments (or proxies for such impediments) to trade flows. Reducing these barriers through successive rounds of negotiations clearly involved some degree of constraint on governmental freedom of action but, based as it was on the exchange of roughly equal offers of tariff reductions, or broad reciprocity, this constraint was limited. Indeed the original, if implicit, concept underlying the GATT was the preservation of national diversity and a variety of "interface" mechanisms were included to ensure that domestic priorities could be balanced with international obligations.

In the second stage of interdependence, the liberalization of financial flows, the erosion of national autonomy took a different form. Policy autonomy at the macro level, i.e. monetary and fiscal policy, began to shrink at a rapid rate when deregulation of financial markets and the acceleration of the ICT revolution spurred a torrent of round the clock financial flows which vastly outweigh trade flows among countries. The flows of foreign exchange have been estimated to be over one and one-quarter trillion dollars a day and fear of capital flight has made the forex market far more powerful than any finance minister or central banker. Efforts to mitigate the impact of these flows so as to provide governments with more room to manoeuvre, especially in implementing fiscal policy, have led to repeated calls for some form of tax on short-term spot transactions -- to put "sand in the wheels" as James Tobin argued in his original 1978 proposal. In response to the Mexican crisis in 1995 these proposals were revived before the 1995 Economic Summit in Halifax, but rejected as unworkable in a global economy where new technologies can create offshore sites almost instantaneously. New forms of surveillance for the IMF were, however, adopted as a result of Halifax as a means of preventing further crises. Their first test -- in Thailand in the summer of 1997 -- failed and as the currency turmoil in Asia spread, criticism of the IMF has grown. The Asian crisis is, however, of a fundamentally different nature than the Mexican, centred not on sovereign debt and macro policies, but on "soft infrastructure" -- basic structural issues which include regulatory deficiencies, corporate governance, legal regimes and political governance. Whether or not there will be a backlash against global financial markets is difficult to forecast, especially since the economic and political consequences of the currency turmoil will take some time to appear. Whatever the result, however, global financial integration may be modified but can not be rescinded. The genie is out of the bottle. Thus the second stage of independence has and will continue to severely constrain national room for macro policy, whether for good or for evil.

But the third stage of interdependence, to which the term deeper integration or globalization has been affixed, is of a different nature and order of magnitude. In large degree this relates to the role of the MNE's and their policy influence, especially in the U.S. For the MNE's, especially in high-tech sectors and services, market entry by means of trade and investment is essential: the two modes are complements rather than alternatives. And market presence by investment is a two-way channel for both technology diffusion and technology access. Most importantly, impediments to market access by either mode of entry are no longer confined to overt border barriers to trade or explicit restrictions which limit foreign investment and would thus also prevent access to advancements in knowledge generated by universities or research laboratories. Rather impediments to effective access can often arise from domestic regulatory policies, legal cultures, private sector actions, the structure of financial markets or innovation systems which have an exclusionary effect by accident or design; in a word by system differences in the broadest sense of that term which encompasses institutional arrangements and historical legacies. Thus the agenda of deeper integration must cover both trade in goods and services as well as investment and will involve an intrinsic pressure for harmonization. In a meaningful sense, the destination of the path of deeper integration is a global single market. This directional push is reinforced by locational competition for investment so that the MNE's building production networks around the world can exert greater pressure on governments to lower taxes, provide fiscal and other incentives and reduce transactions costs associated with different regulations and legal regimes.

The full impact of the ICT revolution clearly has some distance to go and a fourth phase of global integration is now visible in the growth of electronic commerce. Reflective of the underlying shift in the technology trajectory from “hard” to “soft”, and the growing importance of “network markets”, especially telecommunication, this new world of cyberspace literally eliminates borders so that the term “domestic policy” could become an oxymoron! Be that as it may, the main issue for the subject at hand is that the steadily deepening integration of the global

economy is in effect creating a momentum to a global single market. Of course we may never arrive at that destination but the pressure for system convergence -- harmonization of domestic policies and institutions -- will be fed by locational competition for investment; regulatory arbitrage by MNE's; rapidly changing by locational competition for investment; regulatory arbitrage by MNE's; rapidly changing communication modes; and international economic policy in both multilateral and regional fora.

In sum, the deeper integration agenda is far more intrusive and erosive of national sovereignty than the founders of the GATT could have ever imagined. The original GATT mode of negotiation by broad reciprocity will be less and less relevant: how do you equate deregulation with tariffs for widgets? And because of system differences which include structural asymmetries of access, with the U.S. being the most porous, deregulated and transparent (read legalistic) in the world, the new protectionism will take the form of system friction, as the US-Japan high tech battles of the 1980's so amply demonstrated. More broadly in Asian countries, with a wide diversity of inherited legal institutions from indigenous or colonial regimes -- not least of all China -- system harmonization seems unlikely and it will take patience and skill to negotiate rules which spell out the lines between "efficiency" and "sovereignty". And it will require considerable reinforcement of the World Trade Organization (WTO), seriously ill-equipped to "govern" a global single market. Moreover, changes are now underway in both the IMF and the World Bank which will increasingly target soft infrastructure and this focus will require better coordination between these two institutions and the WTO.

III. INGO's in the Global Arena

The deeper integration agenda at present largely reflects the agenda of the MNE's but there are also other new global players of growing significance -- the International Non-Governmental Organizations or INGO's. Virtually non-existent at the onset of the century, they grew to over 500 by 1990 with most of the growth taking place after the Second World War. By

way of comparison, intergovernmental organizations and states numbered around 300 and also grew, although at a far slower pace, after WWII as a result of postwar reforms in international policy and the demise of colonialism. So the INGO's are a relatively new but increasingly pervasive institutional phenomenon.

The INGO's are very diverse in nature but have certain characteristics in common. They are flourishing today in part because of ICT which permits rapid and inexpensive global networking. And they are very skilled in dealing with the media, especially television. Finally, they can be termed "transformational coalitions" that are less concerned with traditional interest-group concerns like the division of the pie than with the recipe for making it, and thus their agenda is often at odds with the other players, governments and the MNE's. In a sense they are post-Enlightenment, linked less by a rule of reason than by a rule of morality or values. The most prominent INGO's at present are the greens and their influence was already evident at the Marrakesh meeting which concluded the Uruguay Round in April 1994 and also established a Committee on Trade and Environment to report to the first World Trade Organization (WTO) Ministerial Conference in Singapore in December 1996.

It is no accident that the green INGO's were the first to play a role in trade policy at the launch of the renewed multilateral rules-based trading system. In 1994 the implementation of the North American Free Trade Agreement (NAFTA) included specific environmental provisions: the first in trade history. And in 1994, the United Nations Conference on Environment and Development -- the Rio Earth Summit -- has been described as a watershed event for non-governmental organizations by endorsing their role in international policy-making. They were actively involved in the preparatory process, in national government official delegations, and in drafting. New international alliances were launched thus expanding their transnational scope. Perhaps most importantly over the longer-run, UNCED requested the UN's Economic and Social Council (ECOSOC) to formalize the rules for INGO participation in the policy process of the United Nations institutions. The Report of the Working Group on the Review of Arrangements

for Consultations with Non-Governmental Organizations was issued in July 1996 and spells out in considerable detail the status and role of NGO's in the U.N. system. The effort to draw a fine line between the role of member governments and the NGO's is reflected in the complex and detailed drafting during what were no doubt a highly contentious series of meetings. Nonetheless, the report marks a potentially major transformation of the postwar international policy-making architecture.

While the environmental groups are the most prominent and most active in the global arena, they are part of a much broader phenomenon now receiving increasing attention under the rather broad and ill-defined term "civil society", to include all manner of non-governmental institutions or even informal group interactions from philanthropic bodies and professional societies to community sports clubs. A distinction is sometimes made between community-based associations organized around mutual social interests, and mass membership organizations -- like the environmental, human rights, women's groups -- based on single interests and more akin to the traditional business and trade union lobbyists. These latter groups are, by definition, policy-oriented and thus more relevant in the context of this discussion. But even within this category of non-market, non-governmental organizations, the World Bank differentiates between advocacy NGO's, both national and international and operational NGO's engaged in the delivery of services largely at the local level. The World Bank, it's useful to note, is increasingly engaging with both these institutions as it has been under sustained attack to incorporate environmental considerations into its overall policy framework and to utilize NGO's rather than government agencies in recipient countries for service delivery as a means of building "social capital", another faddish but ill-defined term.

As noted, and should be stressed, the influence of the INGO's, as exemplified by the environmental groups, has been greatly enhanced by the ICT revolution, both by agile and skilled use of the media (especially television) and by the low cost and global span of communication

linkages such as e-mail. While the environmental movement is decades old, their impact on policy has been gathering force only in the past few years. Rio, NAFTA, Greenpeace's stunning victory over Shell in 1995 which involved abandonment of years of planning by a powerful MNE and forced a fundamental change in corporate strategy by including environmental and human rights groups as formal advisors on new projects;⁴ and the equally stunning impact that same year of animal rights groups in the U.K. on the long-standing European Commission policy with respect to the transport of live animals -- provide plausible evidence to support this assertion of growing policy impact. Of course such "victories" can be matched by equally significant "defeats", such as the growing dismay that the post-Rio policy results have been less than expected. There is an ongoing struggle within the environmental movement between the more radical activists and the more pragmatic "realists" that promise to intensify and the outcome is by no means clear. The "realists" have formed alliances with business in some sectors to add to the weight of "green" approaches in policy formation and to explore technical solutions to environmental problems which has been termed "collaboration" by their more assertive colleagues. Further, since the most powerful INGO's are based in the OECD countries, and especially in the English-speaking countries, it's also not clear how "universal" their messages really are. For this and other reasons, indigenous INGO's are proliferating in some Latin American and Asian countries.

Finally, the media-based advantage of the radicals -- the attraction of apocalyptic messages in the age of sound bites -- has produced the inevitable backlash from another INGO, the scientific community. The so-called Heidelberg Appeal, signed by 218 scientists from different countries, including 27 Nobel Prize winners, issued on the eve of the Rio conference, is illustrative. While asserting support for the objectives of the Earth Summit, the declaration stated: "We are however worried, at the dawn of the 21st century, at the emergence of an irrational ideology which is opposed to scientific and industrial progress and impedes economic and social development."⁵ For irrational and ideology, substitute the more neutral "post

Enlightenment". Descartes said, "I think therefore I am." The new information age equivalent could be: "I'm on the Internet, therefore I am."

The view that there is a fundamental conflict between a paradigm of faith or values and that of science or reason as the fundamental basis for policy discourse and practice demonstrates how difficult it will be to integrate these new transnational actors into the "establishment" which has dominated the Western world for two centuries. In a broader sense, the proliferation of NGO's and INGO's does reflect an often inchoate and implicit reaction to the impact of globalization in, for example, the erosion of national sovereignty by global market forces and of the legitimacy of political parties. And no doubt the end of the Cold War and the demise of communism has diverted the energy of dissent into new "causes". And in fact one reason for the popularity of the NGO's in the OECD countries is the sense of "empowerment", which implies a further intrusion into state authority. (In developing countries operational NGO's are, as noted, seen as a substitute for incompetent or corrupt governmental institutions). Finally the ongoing crisis of the postwar welfare state in all the OECD countries, rightly or wrongly attributed to the forces of globalization, has no doubt added to the attractiveness of both advocacy and operational NGO's. Thus, at least in part, one could argue that the increasing power of non-governmental actors in both the domestic and international arena is part of a growing backlash to globalization - - a subject for the final part of this talk.

IV. Globalization Revisited

The triumphalism which greeted the fall of the Berlin Wall and the destruction of the Soviet Empire is beginning to sound quaint as the pictures of the new world disorder and the return of history flood the television screens and choke the internet. In the field of international economics, a torrent of new books question the benefits of globalism or decry its malign effects. Part of this outpouring no doubt simply reflects millennial angst as we are about to embark on a voyage into the alien territory of the 21st century. Part of it is also a reaction to the triumphalism

which equates globalism with Nirvana and a sense that something is missing. Schumpeter said that the Stock Exchange is a poor substitute for the Holy Grail so he would have been aghast at the idea that the stock exchange was (at least for some) the Holy Grail!

But the angst and anger cannot all be dismissed as overheated rhetoric which insists that globalism is Armageddon. In this section I will try to highlight a few of the more substantive features of this debate which has only just begun. That's an important point to underline because the main impression one gets from an admittedly selective review of the literature is that it raises lots of good questions and provides few if any good answers. I'm reminded of the sarcastic comment about economics: "When an economist says there's no quick fix it's because he thinks there's no long term solution."

One of the more questionable assertions about globalism is that it provides a unifying set of norms, principles and values -- the new hegemon capitalism. Apart from the fact that the Cold War acted as a powerful constraint on trade disputes by creating a spillover from "high" to "low" policy and that in the future, with the disappearance of the evil empire, the spillover may be reversed, this single hegemon thesis is vapid in other important respects. As noted earlier, market models may vary significantly from country to country as do institutions and historical heritages and the pressure for convergence to one model -- the unique American model -- has and will continue to generate system friction. More to the point, as was clear in the development of American trade policy in the 1980's, this will sometimes generate aggressive unilateralism which undermines the multilateral rules-based trading system. This is not to suggest a likely replay of the protectionist upsurge of the 1930's with its disastrous economic and political consequences. Rather the more likely outcome would be continuing instability and uncertainty and an undermining of global growth.

But a protectionist backlash stemming from system friction and unilateralism is only part of the story. The investment-led globalization trend is, as argued earlier, pushing in the direction of a global single market. The compelling arguments for a global single market are economic. Consumers would be able to buy the best products at the lowest prices anywhere and everywhere. The gains stem not only from the static, once-and-for-all efficiency gains from eliminating barriers but also, and more importantly, from dynamic efficiencies which would increase growth and create new jobs as global competition forced firms to restructure, network, and innovate. A global single market would, in other words, de-link the economic optic of the nation state and the global corporation. Global distribution of production would blur the national identity of any particular product. "Global" growth would increase, "global" consumers would benefit, but the distributional effects of these gains, the distribution of winners and losers both among and within countries, would affect the immobile factors of production, the land and most of all the labour of the nation state. It is, indeed, the impact of globalization on labour markets which lies at the heart of much of the recent attack on globalization. Since the mid-1980's the demand for less-skilled and less-educated workers has fallen in all OECD countries. In Europe this has resulted in increased, long-term unemployment while in the U.S. it has shown up in a decline in average real wages at the bottom of the scale and a huge rise in earnings inequality.

Since these labour market maladies are unlikely to be short-lived and both the economic and political consequences will be serious, the basic causal factors have been the subject of a growing number of studies both by academics and by international institutions such as the OECD. At the risk of oversimplification most mainstream economists have argued that technological change, which is biased in favour of the highly skilled and highly educated is the main factor explaining these developments, with trade playing a very minor role. More recently, however, a number of new studies -- some not yet published -- present a strikingly different scenario. First, by taking into account not just trade but also immigration and investment flows, globalization contributes to a much more significant proportion of the increase in earnings inequality. And,

more importantly, because an increasing number of unskilled jobs can be shifted to other countries (whether developing or developed) the demand for labour has become far more elastic and this has and will continue to bring downward pressure on earnings.⁶ So far this effect is most apparent in manufacturing but, as has been noted, intra-firm global networks are now being established in a number of service sectors where the jobs are not unskilled in the traditional "blue collar" sense but require considerably higher levels of technical expertise. Only the most educated and most skilled -- who are also the most mobile and can therefore command the highest rewards -- are likely to be immune to this globalization effect. As time goes on, it will not be so easy to sneer about "globaloney"!

But it would also be wrong to dismiss the impact of continuing technological change as a factor. The new technologies require higher levels of cognitive and interactive skills. And, although there are industry variations, the new technologies both reduce the skill content and share of low-skill jobs, while increasing the skill content and share of high-skill jobs, especially in service industries, the main source of new jobs in the future and especially those jobs with non-codifiable information characteristics. The fastest growing jobs in services will be at the high end which requires non-codifiable talent and creativity and at the low end in retail, healthcare, domestic service, gardening, janitorial work, etc. which are likely to increase significantly because of demographics. Thus the new technology will be a continuing source of inequality in the future. Up 'til now, this mismatch between the relative demand for and supply of the unskilled has had different outcomes in Europe and the United States as already noted. The basic reason usually provided for the difference is that in Europe, labour market institutions set a floor for real wages and unemployment results while in the U.S. real wages are remarkably flexible and declining earnings are the outcome. But the contrast is more complex.

The transatlantic difference in labour market maladies is but one, albeit profoundly important, aspect of far broader systemic differences between Europe and the U.S. The American

paradigm, fluid, flexible and disposable, with a far greater tolerance for inequality and far greater scepticism (or hostility) to government, is deeply rooted in America's historical origins. The continental European model (and I agree generalization may be risky) includes a far more extensive welfare state inherited from the postwar period and indeed created largely because of the bitter experience of the interwar years. The contrast between the U.S. and Europe has been characterized as a contrast between Exit and Voice.⁷ An Exit paradigm is far more adaptable in a period of rapid change because in Exit social change is ensured through an anonymous mechanism that ensures victory for the most efficient -- winners are rewarded and losers appear to disappear.⁸ But when losers have a Voice and governments must engage in a long and difficult process of political renegotiation of the postwar social contract, the "rigidities" which were not terribly important when growth was high and moving in established channels become powerful impediments to adaptability in a time of ongoing and pervasive transformation. The renegotiation of the European postwar social contract which would be formidable even in the best of times is made far more difficult today because of slow growth, fiscal and monetary constraints and the erosion of the tax base by locational competition for jobs. One logical and expected response to these explosive political pressures would be to round up the usual suspects -- foreigners, whether immigrants or traders or countries with lower wages. And this is now a feature of the European scene -- the backlash against globalization.

But what is more significant -- being more surprising -- is the backlash building in the U.S. As the NAFTA debate illustrated, the losers seem to have found a Voice, or rather a strange collection of voices including, for example, Ross Perot and Pat Buchanan on the right and, among many others, Ralph Nader on the left. Nader attacked "unaccountable transnational corporations": Buchanan railed against "amoral behemoths". This debate will be revived as the results of the currency devaluations in Asia begin to shore up in rising trade deficits in the U.S.. The failure at the end of 1996 to achieve approval for a renewal of "fast track" -- the right to

negotiate trade agreements which require an up or down vote by Congress -- may have been an early warning signal.

So where does all this leave us? Globalization is presented as an unstoppable force and it no doubt is. But the search for some set of policy options which would seek to maximize its undoubted benefits, but also mitigate its equally undoubted damaging effects on the losers, has really not begun. The transatlantic discord on the "best" model, while muted, is growing, not receding. The widely proclaimed death of the Asian model which is being heralded in the American media will hardly help, to put it mildly! So consensus on a policy approach is remote in the absence of vigorous policy leadership -- not yet visible, alas.

Indeed, there is an obvious paradox here. The demands on countries for policy innovation at home and for more effective international policy cooperation and coordination are far greater in the world of deeper integration than they were in the postwar years when the role of government was expanded and the postwar international institutions created. But that was the golden age of growth when OECD growth rates were two or three times today's trend rates. As already noted, adapting to change, especially change which involves wrenching adjustments in the lives of many citizens, is far easier in a growth-friendlier environment. The challenge is magnified because these citizens, especially in democratic societies bombarded by sound bites, daily perceive the decline in national authority and this continues to undermine the credibility of governments and feeds the erosion of social cohesion. So the real question here is not whether the nation state is becoming a minor bit player on a global stage where the starring roles are assigned to the MNE's and the INGO's are mounting larger and louder demonstrations outside the theatre, but whether there is the political will and skill to re-invent government and global governance. If there is, it will herald not the end of history but the beginning of a new future. If there is not, the triumphalist tenor of the original assertion will sound increasingly foolish, if not worse.

C:\PAPERS.97\APRIL\PRIMEOTT.1

05/14/99

-
- ¹ Richard Rosencrance, "The Rise of the Virtual State," Foreign Affairs, July/August 1996, pp. 45-61.
- ² UNCTAD, World Investment Report, 1995, p. 38.
- ³ The term, adapted from George Gilder, as quoted in Chris Freeman and Luc Soete, Work for all or mass unemployment?, London, 1994, p. 44. The analysis of the new information revolution is comprehensively documented by the authors.
- ⁴ See "Shell to consult pressure groups," Financial Times, March 17, 1997, p. 19.
- ⁵ Wall Street Journal, June 1, 1992, p. A12.
- ⁶ For a review of published and unpublished studies as well as analysis of the demand elasticity argument see Dani Rodrik, Has Globalization Gone Too Far?, Institute for International Economics, Washington, D.C., 1997.
- ⁷ A. Hirschman, Exit, Voice and Loyalty, Cambridge, 1971 and Alexis Jacquemin and David Wright, "Corporate Strategies and European Challenges Post-1992," Journal of Common Market Studies, December 1993.
- ⁸ An excellent example of the dynamic adaptability of the American model is the new retailing strategy to maximize the growing bifurcation of the consumer market into the wealthy top and the poorer bottom (60%) -- the "Tiffany-Wal-Mart" strategy. If the middle-class is disappearing, why bother trying to sell to them? See "Two-Tier Marketing," Business Week, Mar. 17, 1997, pp. 82-90.