The Foreign Policy Implications of Economic Globalisation

Speech delivered by the Hon Lakshman Kadirgamar P.C., M. P., Minister of Foreign Affairs, Sri Lanka, at the Annual General Meeting of the Ceylon Chamber of Commerce held at the Bandaranaike Memorial International Conference Hall on 26th July, 1996.

We live in a world of crumbling barriers and proliferating technology. Human endeavours that were once confident within the nation State have now moved on to a broader mosaic of interaction on a transnational plane. In different ways, Eugene Schumaker's vision of "a million villages", have sought to capture this nation of globalisation. Critics say that the central theme of globalisation is the elevation of the "market" to a fetish in the belief that almost everything that humans do has some- thing to do with the so-called 'rules of the market'. Some even charge that the accompanying erosion of the State's role as a social regulator is responsible for the growing inventory of conflicts. Others say that globalisation is inevitable and irreversible, and that the challenges and opportunities of the future must necessarily be addressed in this global context.

Without subscribing to either view, what is clear is that globalisation is already a fact of contemporary life. This process. will acquire further momentum in the years to come. Knowledge and the application of technology in society will become progressively more powerful determinations of wealth and power in the world. New knowledge harnessed properly and exciting technology applied wisely can very well become potent instruments for dealing with poverty and disease, growth and development. Unequal access to these critical resources of knowledge and technology, however, can further marginalise the more vulnerable hamlets of the global village and make globalisation dangerously lopsided.

The complex web of risks and opportunities does not make decision making any easier, whether those decisions are made by individual citizens, the business community or by policy makers. The problems are not new, but their magnitude and complexity make them more daunting than ever before.

About three and a half decades ago after the famous Wall Street crash, the Economist, in its October 1930 issue, surveying the global problems of that time observed:

"The supreme difficulty of our generation is that our achievements on the economic plane of life have outstripped our progress on the political plane to such an extent that our economics and our politics are perpetually falling out of gear without one another. On the economic plane, the world has been organised into a single, all embracing unit of activity. On the political plane, it has not only remained partitioned into sixty or seventy sovereign national States, but the national units have been growing smaller and more numerous and the national conscious- ness more acute. The tension between these two antithetical tendencies has been producing a series of jolts and jars and smashes in the social life of humanity."

The challenge before contemporary policy makers remains the reconciliation of these antithetical tendencies which have become. even more complex as a result of surging information flows, heightened national consciousness, soaring social aspirations: in general, the modern ways of doing things.

This challenge is particularly acute in the realm of foreign policy formulation and practice whose fundamental premise remains sovereignty and national interest These interests too have under gone considerable change and transformation in that they are increasingly viewed as being realizable only in terms of interdependence and collective interests Harmonising economic and political structures in a global setting will be further complicated by the fact that the sixty or seventy sovereign national State which the Economist wrote about over three decades ago, have now increased to almost 200 such entities with different political persuasions, social structures and economic philosophies. The world is confronted with complex and pervasive challenges which do not recognise conventional geographic or political delimitations. A world population of 10 billion by the middle of the next century, environmental degradation and climate change, mass migration, narco-terrorism, intellectual piracy will tax to the limit the ingenuity of contemporary political, social and economic institutions as they attempt to come to terms with the current trends of globalisation.

There is no doubt that the rapid growth of the world economy propelled by unparalleled technological developments and illumi nated by the spectacular star burst of information technology, have driven market globalisation far ahead of the sluggish process of political harmonisation amongst nations.

The international community today faces a broad spectrum of challenges brought to the fore by the growing inter-dependence of economies as well as of civil societies. This inter-dependence is largely an outgrowth of the electrifying impact of new information technology and the attendant revolution in communications.

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Technology has been a prime mover in globalising mass media and instant exchanges of economic information. These new technologies include multi-media communications using computer networks; video conferencing via satellite; high capacity fibre optics technology and the ever increasing scope and speed of data processing available to the ordinary consumer and to the corporate executive. All this has changed out of recognition the traditional ways of doing business, methods of production and even consumer habits. Today stock analysts worldwide are linked through a maze of computer networks. Transactions are being carried out often on their own momentum and even without allowing time for the play of State regulating mechanisms. This has led to what has been described as the ‘unleashing of capital markets’ in rapidly liberalising global bazaars of investment and production.

Commercially viable computing power now offers tremendous speed and capacity. Such business data bases and analytical capability are becoming cheaper through intense competition. These developments have made communications faster and cheaper enabling financial markets to operate increasingly on a global scale beginning from the 1980s. With this process of globalisation barriers to capital movements were removed in response to more variable interest rates throughout the OECD countries. For instance, during the 1980s, the value of bonds based on international markets grew from US$259 billion to 1.65 trillion. During the same period cross eborder transactions in shares grew from US$520 billion to 1.4 trillion.

Industry naturally follows capital. No doubt, the largest beneficiaries of growing world trade and migratory investment are the world’s Trans National Corporations (TNCs) which largely own or have access to the most sophisticated modern technology. They have the inherent advantage of their enormous capacity. to achieve economies of scale. They are well protected by intellectual property laws and possess the capacity to manipulate the education of the consumer. The fact that the annual turnover of General Mo- tors, Exxon and Ford in 1992 was higher than the combined GNP the same year of Saudi Arabia, Indonesia and Norway illustrates the enormous importance of the TNCS in shaping the globalisation process. The TNCs wield significant influence over the global consumer community. An Australian magazine reported that ‘Coke’ (Coca- Cola) is the second-most recognised word (after ‘ok’) in the English language worldwide.

There is no question that the driving force of the post-war economic boom remains the private sector. Since 1945, the role of the TNCs in global economy growth has been phenomenal as the US and European based pioneering corporations were joined by the equally dynamic late comers from Japan and from other Asian and Latin American countries. These and other massive state owned transnationals were instrumental in moving ahead the industrialisation process. That brought about the globalisation of production, trade and investment dramatically increasing economic inter-dependence on the one hand and also, on the other increasing the vulnerability of weak economies due to uneven distribution of returns and pressures for natural resources. There does not seem to be any equally attractive alternative to TNCs at the present time given the TNC’s preponderant economic activity. The

TNCs control about one-third of the world’s productive assets in the private sector.

With this increasing economic integration, national economic well being has become organically linked to external economic factors. Consequently, the traditional notions of absolute sovereignty seem to be losing their relevance. in the conduct of conventional diplomatic affairs. The TNC’s technological and industrial might has also contributed to the diminution of sovereignty. These developments have brought to the fore the need for foreign policy makers to keep abreast of technological developments and be cognizant of the economic dimensions of the formulation and practice of foreign policy. The globalisation of the market place has without doubt brought abut a new set of priorities for the foreign affairs establishments of the developing countries, in particular.

Increasingly, Governments have to recognise that their fiscal flexibility is compromised in the face of rapidly growing portfolio capital movements which can finance current account and fiscal deficits on a short term basis. At the same time financial liberalisation

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vis-a-vis foreign influence could increase the vulnerability in the economy by opening the doors to destabilising movements of short term funds that flow into stock exchanges to make quick speculative gains. The so called ‘hot money’ phenomenon triggered by globalised liberalization was responsible for the unprecedented crisis in Mexico and impending problems in Brazil and Chile. This concern notwithstanding, governments find it increasingly difficult to resist globalisation on the one hand and deliver positive and less painful economic policies on the other.

Technological developments have also been responsible for changes that have made the conventional concept of sovereignty obsolete. Remote sensing and monitoring technology, satellite surveillance and other means of data collection have made it virtually impossible for any entity or organisation to remain isolated from the global framework. Governments can no longer monitor, let alone control, communications within and across borders. New technologies offer almost absolute freedom of communications. through media such as the Internet. These together with real time TV, and radio and telephone communications have facilitated national and international exchanges between people and institutions free of any government control.

The term globaslisation is understood principally in terms of the transformation of world economic activity towards an integrative process. There is however no single definition or model of globalisation. Nor is there a single structure or set of structures that could be developed to project or reconcile political and economic interests in a setting of global transformation. Each country's policy response to this will be a broad and dynamic decision making process that requires interaction in a constantly evolving situation in terms of technological economic and political developments. How each country deals with these inter-related issues and how a developing country such as Sri Lanka meets the problems and seizes the opportunities presented by this complex chain of interaction in the global market place is a major challenge for foreign policy making. In order to cope with this policy challenge we have to understand that while we are conscious of the range of opportunities that are available to societies and individuals there are also imbalances and risks inherent in these on-going processes. Foreign policy analysts and practitioners. should be alive to these imbalances and risks, both to forewarn their entrepreneurs as well as to prepare in responses to adverse impacts.

Inter-dependence of economic activity while multiplying opportunities for wealth creation can also bring about destablising financial and economic shocks from one country to another. Whilst there are good lessons to be learnt such as the measures taken to mitigate the 1987 stock market crash there are other problems such as the debt crisis of the 1980s which continue to affect economic development adversely and create economic upheavals in a number of developing countries. The IMF which has a mandate to counter such instability does not have the resources to do so. The foreign policy establishments and the business community closely interact to identify such problems in order to prepare adequate response strategies.

It must also be pointed out that the dynamism of global economic interaction as well as its instability is derived from the fact that these processes are originated basically in the private sector. It may be that the pace of globalisation of financial and other markets is out- stripping the capacity of governments to provide the necessary opportunities nationally as well as internationally between the free market operation and the provision of public goods and services.

The process of globalisation, it was once thought, would also bring about, in the international trading system, respect for the rule of law as against the so called law of force. The fact that State practice in this regard has been inconsistent does not generate confidence and poses foreign policy challenges particularly to weaker developing countries, for example, unilateral embargos, non-tariff barriers, other protectionist measures, etc. The World Trade Organisation (WTO) which succeeded the General Agreement on Tariff and Trade (GATT) is expected to function on the basis of respect for the rule of law. However, concerns remain, as pointed out by the Director-General of WTO, as to the most efficient system of global economic interaction. The Director-

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General of WTO has raised the question whether a system of regional economic groupings or one single trade area covering the global system would be the most viable arrangement. The other concern raised by the Director-General is, of course, whether global trading will be rule-based or power-based. The crucial point is that those who have preponderant power are also the key players in the global economy. For them strategic interests make force attractive when the rule of law is politically inconvenient or not in their immediate interest. As William Pfaff writing in the International Herald Tribune put it, “If power dominates trade as we enter the 21st century, everyone will eventually give up the rules. They cannot afford to do otherwise. In the short term rules may suit the more powerful. In the longer term they will not.” This will be one of the principal diplomatic challenges that will confront the incipient rule-based trading system of the global market place. The challenge will be even greater to foreign policy makers and practitioners in the developing world as these countries stand to benefit from a rule-based system. In such a regime arbitrary non-tariff barriers and discriminatory protectionist measures will not nullify the comparative advantage the developing countries have.

Foreign policy, trade and investment policy should also go hand in hand in terms of dealing with the enormous potential offered by transnational corporations in the field of investment, trade and technology transfers. I said earlier that transnational entities have provided locomotion for the globalisation of production and investment. Many corporations are shedding their national identities and evolving into integrated operations producing goods for a world market rather than identifying themselves with national products. CNN International has already attempted this national transnational and international interface of advertising.

The policy makers and businessmen in developing countries also need to deal with the virtual explosion of portfolio investment in emerging markets which increasingly operate on an international scale. The Sri Lanka stock exchange was no exception, as it was once described as the fastest growing stock exchange in this part of the world. With electronic data processing and computer based communication systems, people trade virtually 24 hours a day using an array of financial instruments. To this dynamic cyberspace financial arena, national frontiers and government controls have little or no meaning.

This process has brought in its wake certain problems that could dampen the enthusiasm for commercial globalisation. Drug trafficking, illicit arms, toxic waste disposal, trafficking in human beings, problems of migration and terrorism including nuclear smuggling are but a few of the policy challengers that are partly the spin-offs of the globalisation process. Drug traffickers, arms smugglers and terrorists have developed a nexus between these activities in certain regions. They use for their nefarious activities sophisticated electronic communication systems and other technical means that normally provide the channels for legitimate trade and investment activity on a global scale. These issues remain major challenges to the existing system and for foreign
policy makers.

International cooperation for the reduction and elimination of poverty is another dimension (perhaps somewhat neglected) of globalisation. Given the inter-dependence of issues and countries. there cannot be in the 21st century any enclaves of prosperity and pockets of poverty that hopes to be mutually insulated. The number of absolute poor, the truly destitute was estimated by the World Bank at 1.3 billion in 1993 and is still growing. The other dismal statistics are 1.5 billion people without access to safe drinking water, 2 billion lacking safe sanitation and more than 1 billion still illiterate. There is still no macroeconomic framework to adderss and solve these problems internationally. These will continue to be challenges to global well-being despite the integration of the global market place.

Another imbalance that confronts globalisation is that rich countries still account for more than 80 per cent of world trade, 85 per cent of direct foreign investment and 95 per cent of all research and development. There is also the problem of the economies in transition following the collapse of the Soviet Union and the resulting need for incorporating more than 30 new countries into the global grid of markets and the investment cycle.

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the developing to the developed world. This has brought about the serious law and order problem of trafficking in human beings; the political problem of asylum seekers and the social problem of economic migrants. They have also created humanitarian problems. relating to the welfare of migrant workers. These problems are compounded by the emergence of xenophobia in countries that receive migrants, creating thereby a complex inter-active set of problems. Would the driving forces of globalisation create self-supporting cycles of political, economic and humanitarian problems?

There are however no simple answers to these challenging problems. There is also no turning back from the process of integration. Business entities and people who once operated only through the frameworks demarcated or constantly regulated by governments now interact directly with each. other creating their own institutional momentum. The Governments and the business community need to work in tandem to ensure that political and economic institutions neither out-pace nor exclude each other risking instability and unpredictability in the national, regional and international framework for peace and development. The major challenge before us (the business community and Governments) is to forge the joint approach and embark on the joint. action which the Economist referred to some 30 years ago. The 21st century nation State or its surviving form would then be in a position to adapt its political structures, national ethos and social values to rapidly evolving technological change and integration. That, in essence, is the joint task of the Government and the private sector. The outward looking business community and the foreign policy establishment must work together.