

Globalization, Sovereignty and Democracy

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Introduction

Like everyone else, economists like to break out of the narrowness of their discipline and speculate on a larger theme, painting on a bigger canvas. Like John Kenneth Galbraith, they may even make money while having fun. In the process, they may even illuminate and inform, doing good while doing well.

The task I have been assigned is an intellectually challenging one: does the growing globalization of the world economy and the presumed growth then in interdependence promise to constrain national sovereignty; and, does it equally threaten to compromise democratic accountability within nation states?

I feel daunted by the task : it is both extremely broad in scope and at the same time inadequately amenable to conventional analysis within any discipline. My analysis, while grounded in my understanding of the globalization process that is ongoing, must therefore remain essentially speculative in character. Few such speculations, especially those that contain within them a prognosis of the future, have turned out, if the past is any guide, to stand the test of time (though, I derive comfort from the fact that the worth of an idea lies in what it stimulates, even if by provocation, even while it is itself wildly wrong).

Since a major element of the globalization process today is international trade and since we economists tend to think of international trade as essentially a technology (in the sense that it adds to one's productive potential yet another way of transforming goods into one another, via external exchange), the great failure of such speculation that comes to mind, of course, is that of the celebrated pessimists George Orwell and Aldous Huxley. The authors of 1984 and the Brave New World imagined modern technology as the enemy of freedom and the unwitting tool of authoritarianism; things however turned out for

the better, not worse. Modern technology was supposed to make Big Brother omnipotent, watching you into submission; instead, it enabled us to watch Big Brother into impotence. Faxes, video cassettes, CNN have plagued and paralyzed dictators and tyrants, accelerating the disintegration of their rule. As a wit has remarked, the PC (personal computer) has been the deathknell of the CP (communist party).¹

But closer to home, both to me and to the broader theme of this Conference, has been the failure of the early intellectual thinking on the relationship of democracy to development.² Thus, when reflection on strategies for the newly liberated countries began in the 1950s, there was considerable skepticism about the ability of democracies to compete in the race against totalitarian regimes. In fact, it seemed evident that democratic ideas and countries were fated to suffer a disadvantage in this contest. To understand why, it is necessary to recollect the mind-set at the root of the conception of development that then prevailed.

The Harrod-Domar model, much used then, analyzed development in terms of two parameters: the rate of investment and the productivity of capital. For policy-making purposes, the latter was largely treated as "given," so debate centered on the question of how to promote investment. This approach favored by mainstream economists coincided with the Marxist focus on "primitive accumulation" as the mainspring of industrialization and also with the cumbersome quasi-Marxist models elaborated in the investment-allocation

¹ In Huxley's instance, the irony is greater still when one contemplates that mescaline was seen by him as opening the doors of perception when today its progeny, LSD et. al, are seen as closing these doors.

²

For a short commentary on this question, see my "Democracy and Development", Journal of Democracy, July 1992, pp.37-44, and, in particular, see the extended analysis in my First Rajiv Gandhi Memorial Lecture, "Democracy and Development", delivered on October 22, 1995 in New Delhi and being published in Journal of Democracy, October 1995.

literature that grew up around Maurice Dobb.

But if the focus was on accumulation, with productivity considered a datum, it was evident that democracies would be handicapped vis-a-vis totalitarian regimes. Writing in the mid-1960's, I noted "the cruel choice between rapid (self-sustained) expansion and democratic processes."³ This view, which the political scientist Atul Kohli has christened the "cruel choice" thesis, was widely shared by economists at the time.⁴ Later emphasis would shift away from raising the rate of savings and investment (dimensions on which most developing countries did well) to getting the most for one's blood, sweat, and tears (dimensions on which developing countries performed in diverse ways). Indeed, by the 1980s it was manifest that the policy framework determining the productivity of investment was absolutely critical, and that winners and losers would be sorted out by the choices they made in this regard. Democracy then no longer looked so bad: it could provide better incentives, relate development to people, and offset any accumulationist disadvantage that it might produce. Indeed, as Kohli has emphasized, the growth rates of democracies have not been noticeably worse than those of undemocratic regimes.⁵

I also think that the common view, that the undemocratic nature of the regimes in South Korea, Taiwan, Singapore, and Hong Kong was the key to their phenomenal growth, is false. This is a *non sequitur*, a choice example of

³ Jagdish Bhagwati, The Economics of Underdeveloped Countries (London and New York: Weidenfeld and Nicholson and McGraw Hill, 1966), 204.

⁴ Cf. Atul Kohli, "Democracy and Development," in John P. Lewis and Valeriana Kallab, eds., Development Strategies Reconsidered (Washington, D.C.: Overseas Development Council, 1986), 155.

⁵ *Ibid.* This conclusion is certainly not refuted by the more intensively statistical papers in this volume on this subject. While Surjit Bhalla appears to deduce that "political freedom", or democracy, has a benign influence on growth, Przeworski and Limongi are more skeptical of this benign relationship. Neither concludes however, as the cruel-dilemma thesis did, that democracy harms growth.

the *post hoc ergo propter hoc* fallacy. These regimes owe their phenomenal success to their rapid transition to an export-oriented trade strategy (which first enabled them to profit from the unprecedented growth in the world economy through the 1960s, and then positioned them to continue as major competitors in world markets)⁶ , as well as to their high rates of literacy (which economists now generally acknowledge to be an important “producer good”). Both of these growth-promoters were present in part because of the geographic proximity of Japan and the power of its example.

Similarly, I would argue that the dismal performance of India owed to her poor choice of developmental strategy, with excessive reliance on import substitution and degeneration into mindless bureaucratic controls, as also low rates of literacy (whose roots lie in social and political factors discussed insightfully by the political scientist, Myron Weiner in his recent book⁷), the former failing to be blamed in large part on the intellectual affinity that its governing classes harbored for both Fabian politics and Cambridge economics.⁸

East Asian authoritarianism and Indian democracy are thus not the key to explaining their relative performance: the proponents of the contention that democracy aids, or at minimum does not hamper development, have little to fear from the comparative performance of these two regions.

Clearly, then, the “cruel choice” thesis was wrong; and, for us who value

⁶ The question of the reasons for the East Asian “miracle” have been subject of much controversy among economists recently. My own view, developed in many writings, is that their external orientation since the late 1950s enabled these countries to raise their investment and hence saving rates to phenomenally high levels, while the high export earnings and high investment rates meant that imports of new-technology-embodied capital goods also increased dramatically, enabling these countries to profit additionally from the technological inflow.

⁷ M. Weiner, *The Child and the State in India: Child Labor and Education Policy in Comparative Perspective*, Princeton University Press, Princeton, 1991.

⁸ I have discussed the role of these intellectual antecedents, and of misplaced economic theorizing by some of India's leading economists, on India's dismal economic performance in *India in Transition*, Radhakrishnan Lectures, (1992, Oxford University) Clarendon Press, 1994.

democracy, the error hurts our ego while warming our hearts. Here we have therefore an excellent illustration of how speculation grounded in the best thinking of the time failed the test of time, simply because we were using the wrong road map. I am therefore conscious, as I address the tasks before me, that some years down the road, the reality that I seek to grasp will have proven to be elusive again.

II. The Questions

The central questions that I will address now are:

- * Is sovereignty being lost by nation states because of the interdependence implied by the increased globalization of the world economy?

- * Is there also a decline, for this and other reasons, in the democratic accountability that national governments owe to their citizens?

Environment vs. Trade: An Illustration

These questions have acquired considerable political salience today. They are readily illustrated, though neither in all their complexity nor with the analytical rigour that I hope to use below, by the often-acrimonious debate between the proponents of free trade, the GATT and the WTO, on the one hand, and many environmentalists, on the other.

To a large extent, of course, this conflict is inevitable. It reflects partly differences of philosophical approaches to nature that are irreconcilable. Several environmentalists assert nature's autonomy whereas many economists see nature as a handmaiden to mankind. The environmentalists' anguish at the effect of human activity on the environment is beautifully captured by Gerald

Manley Hopkins when, in Binsey Poplars, he writes:

O if we but knew what we do
 When we delve or hew ---
Hack and rack the growing green!
 Since country is so tender
To touch, her being so slender,
That, like this sleek and seeing ball
But a prick will make no eye at all,
Where we, even where we mean
 To mend her we end her,
 When we hew or delve:
After-comers cannot guess the beauty been.
 Ten or twelve, only ten or twelve
Strokes of havoc unselve
 The sweet especial scene,
Rural scene, a rural scene,
Sweet especial rural scene.

It is indeed hard to find an echo of Hopkins in the utilitarian, cost-benefit calculus that many economists bring to bear on the question of the environment.

Then again, the conflict reflects other contrasts. Thus, trade has been central to economic thinking since Adam Smith discovered the economic virtues of specialization and of the markets that naturally sustain it, whereas markets do not normally exist to protect the environment and must often be specially created. Trade therefore suggests abstention from regulation, whereas environmentalism suggests its necessity. In turn, trade is exploited and its virtues extolled by corporate and multinational interests, whereas environmental objectives are embraced typically by nonprofit organizations which are generally wary of, if not hostile to, these interests.

In the end, however, the hostility of the environmentalists to trade and the institutions such as the GATT that oversee it arises from precisely the two issues posed earlier: the threat that trade, increasingly resulting from the globalization

of the world economy, poses to sovereignty and to democratic accountability.⁹
Let me elaborate.

Thus, concerning sovereignty, the environmentalists feel that their ability to maintain the High Standards that they have achieved in their countries will be constrained and eroded by free trade and free capital flows with the Low Standard countries. Their concern is reminiscent of the classic problem of "socialism in one state". Just as capital and labour outflows will undermine the socialist objectives in a country going it alone, so will environmental (and labour) standards erode if they are lower elsewhere. In economists' language, the "political equilibrium" will shift in favour of those who oppose High Standards as industries decline through competition with foreign rivals operating under Low Standards. Moreover, there may ensue an inter-jurisdictional competition to attract capital and jobs through lowering environmental (and labour) standards, so that the trading countries may wind up with an inferior Nash equilibrium, characterized also by lower standards in one or all jurisdictions, than would emerge in a cooperative equilibrium.¹⁰

The environmentalists also fear the undermining of their High Standards via the alternative route of the Low Standards countries challenging the High Standards as "unscientific" or as "closet protectionism". In this instance, when the High Standards are subject to such challenge at the GATT (and now, the WTO which is replacing the GATT) by other trading nations, the environmentalists see the problem as the second one posed above: the

⁹ The threat to sovereignty was also a principal objection to signing the Uruguay Round accords by many legislators in the two democracies, India and the United States. Ironically, the former feared that the weak countries would lose sovereignty to the strong ones, the latter feared that the strong countries would lose it to the weak ones.

¹⁰ The theoretical aspects of this argument, which has attracted a huge economic literature, have been nicely reviewed and synthesized by John Wilson in his contribution to Jagdish Bhagwati and Robert Hudec (ed.s), Fair Trade and Harmonization: Prerequisites for Free Trade?, Vol.s I and II, M.I.T.Press: Cambridge, forthcoming in February 1996.

undermining of democratically-enacted legislation by “faceless bureaucrats” at the GATT. Again, they argue that “the process of negotiating international agreements [such as the GATT’s Uruguay Round of multilateral trade negotiations, concluded in April 1995 at Marrakesh] is less subject to public scrutiny, and therefore a threat to democratic accountability”.¹¹

In fact, some environmentalists have gone even further and alleged that trade liberalization is in part a strategy for circumventing the health and welfare regulations legislated democratically within the nation: the title of a celebrated article by Walter Russell Mead in Harper’s Magazine (September 1992), embracing this thesis, is : “Bushism, Found: A Second-Term Agenda Hidden in Trade Agreements”.

Thus, the questions concerning the impact of globalization, and the integration of one’s economy into the world economy, on sovereignty and on democratic accountability are central concerns in the political arena. A systematic examination of these questions is manifestly necessary. I will therefore turn to each of these questions. But, prior to doing so, I will consider briefly the nature and extent of globalization to date.

III. Globalization

The process of globalization of the world economy has occurred on several dimensions: trade, capital flows, human migrations (voluntary and involuntary). I will sketch these with great brevity.

¹¹ This claim is quoted in Robert Hudec’s excellent contribution, “ ‘Circumventing’ Democracy: The Political Morality of Trade Negotiations”, Journal of International Law and Politics, Summer 1993, containing the Proceedings of a Conference on “The Morality of Protectionism” at the New York University Law School in November 1992.

*Trade flows have dramatically increased in the last two decades, with most countries doubling the share of their trade in GNP and more. The increased trade reflects the continuing reduction of trade barriers with successive multilateral trade negotiations and also, in the case of developing countries, a substantial amount of unilateral, nonreciprocal trade liberalization which can be attributed to a mix of aid-conditionality and self-enlightenment in light of the postwar example of successful outward-oriented countries.¹²

A contribution to this phenomenon has also been made by the expansion of transnational production by multinational firms to a point where many have now made the claim that it is impossible now to say whether a product is American or Japanese or European: a claim that is perhaps premature but certainly destined to be validated in the near future.

The trade flows have expanded, not just in manufactures, but explosively in services. In turn, that has meant, because services must be supplied often by taking the provider to the user, that the trend towards foreign establishments and (temporary) migration of skilled labour such as lawyers and accountants has greatly accelerated.

*Investment flows have increased. True, we forget that the East India Company and the Dutch East Indies Company dominated commerce and the economic life of their countries, so in the long historical sweep, it is probably untrue to talk of the increased dominance of DFI (Direct Foreign Investment). But, in recent decades, it has certainly grown; and its composition is now more evenly balanced between rich-to-poor and rich-to-rich countries. Much DFI

¹² This value of example has certainly worked in South America and in India, where such unilateral trade liberalization has occurred. It would have greatly pleased Cobden and Bright, leading lights in Britain's repeal of the Corn Laws, who were unilateral free traders and felt that the example of British success from her Free Trade, rather than reciprocity, would effectively spread Free Trade elsewhere. Cf. my Protectionism, MIT Press: Cambridge, 1988 (Bertil Ohlin Lectures, 1987)

occurs now in services, partly piggybacking on manufacturing DFI from their home country. Again, while DFI leads to trade, trade leads to DFI; the entry of Spain into the EC triggered a substantial influx of DFI to access the EC market and President Salinas realistically hoped for a similar bounty for Mexico from NAFTA.

The growth of the international flow of short-term funds is perhaps the most dramatic change in the world economy. Their staggering size and their volatility that recently devastated Mexico is a continuing and painful reminder, of the vulnerability that they equally bring, to the Finance Ministers and Central Bank Chairmen and Governors of even powerful countries like France, England, Japan and the United States.

By contrast, foreign aid flows have continued to shrink in real terms. But they remain important, bilaterally from the triad (the EU, USA, and Japan) and multilaterally. [They bring explicit conditionality with them, unlike the private funds which exact only the implicit conditionality that the task of wooing them or else losing them implies].

*An important dimension on which countries interface has been humanity itself. Illegal flows have become dramatic as, now that information and networks exist, the rich countries have become targets for entry. Immigration controls have been evaded, as controls invariably are; it is not too farfetched to say that borders are getting to be beyond control.

The problem is compounded for the refugees, both as narrowly defined in UN Covenants, and in terms of the wider definition of flight from civil wars and mortal danger. The UN High Commissioner for Refugees finds her hands full and her purse empty as the refugees have multiplied with civil wars brought about by ethnic strife, famine and deprivation.

IV. Conventional Concerns: Benign versus Malign Impacts

Economists generally see the increasingly interdependent world, with its growing exchange of goods and services and flows of funds to where the returns are expected to be higher, as one that is gaining in prosperity as it is exploiting the opportunities to trade and to invest that have been provided by the postwar dismantling of trade barriers and obstacles to investment flows. This is the conventional “mutual-gain” or “non-zero-sum game” view of the situation. I would argue that it is also the appropriate one.

But it is not a view that has had a clear run at the best of times. That integration into the world economy is a peril rather than an opportunity, that it will produce predation at one’s expense instead of gain, has never been wholly absent from the policy scene. The substance of the disagreement among policymakers and among mainstream economists has, however, been defined by disagreements concerning the impact of such integration or globalization on conventionally-defined economic welfare whereas only recently have broader concerns about sovereignty and democratic accountability risen from the fringe to command attention in policy circles.

An Ironic Reversal

But I must point to an irony: where the developing countries (the South) were earlier skeptical of the benign-impact view and the developed countries (the North) were confident of it, today the situation is the other way around.

(i) The Earlier Situation: Thus, if you look back at the 1950s and 1960s, the contrast between the developing countries (the South) and the developed countries (the North) was striking and made the South strongly pessimistic

about the effects of integration into the world economy while the North was firmly optimistic instead:

* The South generally subscribed, not to the liberal, mutual-gain, benign-impact view, but to malign-neglect and even malign-intent views of trade and investment interactions with the world economy.¹³ It was feared that “integration into the world economy would lead to disintegration of the domestic economy”. While the malign-neglect view is manifest most clearly in the famous dependencia theory that President Cardoso of Brazil formulated in his radical youth as Latin America’s foremost sociologist, the malign-impact view was most vividly embodied in the the concept and theory of neocolonialism.

Trade thus had to be protected; investment inflows had to be drastically regulated and curtailed.¹⁴ The inward-oriented, import-substituting (IS) strategy was the order of the day almost everywhere. Only the Far Eastern economies, starting mainly in the early 1960s, shifted dramatically to an outward-oriented policy posture: the results, attributable principally to this contrast in orientation to the world economy but partly also to initial advantages such as inherited land reforms and high literacy rates, were to produce the most remarkable growth experiences of this century (and, as I shall presently argue, to facilitate by example the reversal of the inward-looking policies in recent years). But, at the time, the developing countries were certainly in an inward, cautious mode about embracing the world economy.

* By contrast, the developed countries, the North¹⁵, moved steadily

¹³ These different economic-philosophical positions are discussed in depth in Jagdish Bhagwati (ed.), The New International Economic Order: The North-South Debate, Cambridge: MIT Press, 1977, Chapter 1.

¹⁴ This attitude extended to other areas too: the outward flow of skilled manpower was thus considered a “brain drain” rather than an opportunity for one’s citizens to train and work abroad that would lead to a beneficial impact as this diaspora expanded.

¹⁵ They were called the West, of course, then. The changing nomenclature of the poor and rich countries reflects a shift from a historical, cultural and imperial divide into East and West to a contemporary, post-colonial and development-related divide into South and North.

forward with dismantling trade barriers through the GATT Rounds, with firm commitment to multilateralism as well, subscribing essentially to the principles of multilateral free trade and of freer investment flows as the central guiding principles for a liberal international economic order that would assure economic prosperity for all participating nations.¹⁶

(ii) Role Reversal: The Turnaround: Today, however, the situation is almost reversed. The fears of integration into the world economy are being heard, not from the developing countries which see great good from it as they have extensively undertaken what the GATT calls “autonomous” reductions in their trade barriers, i.e. unilateral reductions outside the GATT context of reciprocal reductions. Of course, not all these reductions, and increased openness to inward DFI, have resulted from changed convictions in favour of the liberal international economic order and its benefits to oneself, though the failure of policies based on the old pro-inward-orientation views and the contrasting success of the Far Eastern countries following the pro-outward-orientation views have certainly played an important role, especially in Latin America and Asia. But some measure of the shift must also be ascribed to necessity resulting from the conditionality imposed by the World Bank and, at times, by the IMF, as several debt-crisis-afflicted countries flocked to these institutions for support in the 1980s, and equally from their own perceived need to restore their external viability by liberal domestic and international policies designed to reassure and attract DFI.

But if the South has moved to regard integration into the world economy as an opportunity rather than a peril, it is the North that is now fearful. In particular, the fear has grown, after the experience with the decline in the real

¹⁶ See, for example, Jagdish Bhagwati, Protectionism, Bertil Ohlin Lectures, Cambridge: MIT Press, 1988, on the question of free trade, and The World Trading System at Risk, Harry Johnson Lecture, Princeton: Princeton University Press, 1991 on the issue of multilateralism.

wages of the unskilled in the United States and with their employment in Europe in the 1970s and 1980s, that by trading with the South with its abundance of unskilled labour, the North will find its own unskilled at risk.¹⁷ The demand for protection that follows is then not the old and defunct “pauper-labour” argument which asserted falsely that trade between the South and the North could not be beneficial. Rather, it is the theoretically more defensible, income-distributional argument that trade with countries with paupers will produce paupers in our midst, that trade with the poor countries will produce more poor at home.

Now, it is indeed true that the real wages of the unskilled have fallen significantly in the United States during the previous two decades. In 1973, the “real hourly earnings of non-supervisory workers measured in 1982 dollars ...were \$8.55. By 1992 they had actually declined to \$7.43 --- a level that had been achieved in the late 1960s. Had earnings increased at their earlier pace, they would have risen by 40 percent to over \$12.”¹⁸ The experience in Europe has generally been similar in spirit, with the more “inflexible” labour markets implying that the adverse impact has been on jobs rather than on real wages.¹⁹

But the key question is whether the cause of this phenomenon is trade with the South, as unions and many politicians feel, or rapid modern information-based technical change that is increasingly substituting unskilled labour with computers that need skilled rather than unskilled labour. As always, there is debate among economists about the evidence: but the preponderant view today among the trade experts is that the evidence for

¹⁷ The evidence in support of this phenomenon in the 1980s, both for the United States and for several other countries, is reviewed and synthesized nicely by Marvin Kosters in Chapter 1 of Jagdish Bhagwati and Marvin Kosters (eds.), Trade and Wages: Leveling Wages Down?, Washington D.C.: American Enterprise Institute, 1994.

¹⁸ Cf. Robert Lawrence, “Trade, Multinationals, & Labor”, Cambridge: National Bureau of Economic Research, Working Paper No. 4836, August 1994.

¹⁹ See Employment Outlook, Paris: OECD, July 1993.

linking trade with the South to the observed distress among the unskilled to date is extremely thin, at best. In fact, the main study by labour experts that first suggested otherwise has been shown to be methodologically unsound in not appreciating that if real wages were to fall for unskilled labour due to trade with the South, the goods prices of the unskilled-labour-intensive goods would have to have fallen;²⁰ and subsequent examination of the US data on prices of goods shows that the opposite happened to be true.^{21 22}

While therefore the consensus currently is that technical change, not trade with the South, has immiserized our proletariat, the fear still persists that such trade is a threat to the unskilled. In Europe, there has thus been talk of the difficulty of competing with "Asiatic ants"; such talk leads to talk of protectionism, in turn.

Alongside with this is the fear that multinationals will move out to take advantage of the cheaper labour in the poor countries, as trade becomes freer, thus adding to the pressure that trade alone, with each nation's capital at home, brings on the real wages of the unskilled. Of course, this too is unsubstantiated fear: but it has even greater political salience since the loss of jobs to trade is

²⁰ See Jagdish Bhagwati, "Free Traders and Free Immigration: Strangers or Friends?", New York: Russell Sage Foundation, Working Paper No. 20, 1991.

²¹ This empirical work by Robert Lawrence and Matthew Slaughter is reviewed in Jagdish Bhagwati and Vivek Dehejia, "Freer Trade and Wages of the Unskilled --- Is Marx Striking Again?", in Bhagwati and Koster, op.cit. A subsequent empirical study by Jeffrey Sachs and Howard Schatz, "Trade and Jobs in US Manufacturing" in Brookings Papers, 1994, claims to overturn the Lawrence-Slaughter findings by taking out computers (a procedure that is debatable at best). Even then the coefficient with the changed sign is both small and statistically insignificant. So, while Noam Chomsky has educated us that two negatives add up to a positive in every language, it is wrong to claim that the two negatives of a statistically insignificant and small parameter of the required sign add up to a positive support for the thesis that trade has been depressing the real wages of the unskilled!

²² The work of Adrian Wood, North-South Trade, Employment and Inequality, Oxford: Clarendon Press, 1994, argues in support of the trade-hurting-real-wages-of-the-unskilled thesis but his arguments have been effectively criticized by Lawrence, op.cit., 1994. See also the most recent review of the theory and evidence in Jagdish Bhagwati, "Trade and Wages: Choosing Among Alternative Explanations", Federal Reserve Bank of New York Economic Policy Review, January 1995.

less easily focused on specific competing countries and their characteristics than when a factory shuts down and opens in a foreign country instead. As it happens, I suspect that, at least in the United States, the flow of capital also is in the wrong direction from the viewpoint of those who are gripped by such fear. For, during the 1980s, the United States surely received more DFI than it sent out elsewhere, both absolutely and relative to the 1950s and 1960s. Besides, if foreign savings are considered instead, the 1980s saw an influx, corresponding to the current account deficit that has bedevilled US-Japan trade relations for sure.

The fears in the developed countries are fairly potent, nonetheless, and drive a number of other demands, such as those for harmonizing and imposing higher environmental and labour standards on the poor countries: not primarily because of moral concerns reflecting a sense of transborder moral obligation but often with a view to somehow and anyhow raising the costs of production in the poor countries to reduce the pressure of competition that is feared to depress one's wages and take away one's jobs. I will return to these aspects of the question below.

V. Globalization and Sovereignty

Evidently then, I regard the foregoing critiques and fears of the globalization process in the developed countries to be unsound, and the reverse enthusiasm for globalization among the developing countries today to be sensible. In fact, I embrace (with necessary nuances) the current "Washington consensus", which I embraced in fact long before it reached Washington, that successful and robust development requires two pillars: democracy (whose merits I began my analysis with) and markets (which, in turn,

imply integration into the world economy).

But there are new concerns which have arisen, which cut across the rich and poor countries and in fact afflict the latter even more pointedly, concerning the loss of sovereignty as also of democratic accountability following the globalization phenomenon. These are important concerns, especially since, if integration into the world markets for trade, investment and people is undercutting democracy, then the two legs on which the Washington consensus seeks to walk will be pulling in different directions. These concerns therefore need to be carefully assessed.

Let me begin with the question of sovereignty. Two different ways can be distinguished in which this question may be approached. Both concern the poor nations more than the rich nations, since the latter are politically and economically the stronger.

1. Increased Cost of Certain Policy Options: One way is to consider sovereignty as adversely affected if the globalization, while welfare-improving, increases the cost of certain policy options so dramatically as to impair, in effect, our ability to adopt them.

Thus, the increasing trade opportunities and flows of funds and of direct foreign investment (DFI) in today's world economy are increasing the ability of different countries to achieve greater income or even significantly-accelerated growth rates. At the same time, however, the increased reliance on trade, external funds and DFI may constrain the ability of individual nation states to pursue social agendas.

This may happen, for instance, because the politically weaker nations may find themselves unable to pursue more egalitarian agendas, for example, without serious consequences such as outflows of capital. This used to be, in fact, the problem of "socialism in one state": if you went socialist, while the world

around you was not, your capital and people would exit, forcing such immense economic costs that the option of socialism was effectively ruled out.

Then again, to recount a more pertinent problem today, consider the Mexican debacle in early 1995. Integration into the capital markets of the world through capital account convertibility aided Mexico's prosperity for sure by enabling her to gain from short-term capital inflows and by avoiding the efficiency losses that exchange control restrictions entail. But then such integration and openness to volatile short-term capital inflows demands extremely difficult fiscal and monetary discipline in whose absence the economy becomes seriously vulnerable. When things go wrong, as they did in Mexico, putting the economy on the rack to restore credibility with Wall Street becomes Hobson's choice: the alternatives are even worse. Policy options shrink dramatically before and during crises.

One may well ask: if governments choose to integrate and take these risks and corresponding constraints on their policy options, is this not a calculated and rational surrender of sovereignty? By and large, I think that this is a valid way to look at the question. But some observations are in order:

* Governments may not adequately grasp the full implications of globalization when they choose to integrate in specific ways into the world economy. Evidently the many macroeconomists, who have dominated Mexico's recent politics, did not.

Then again, even if they did, they may overdiscount the downside scenarios, leading to a regret phenomenon.

Unfortunately, the reversal of mistaken policies may not be easy. It is hard to imagine that Mexico will be able to get out from under Wall Street's yoke now that it is financially crippled thanks to embracing Wall Street with abandon.

* Besides, governments are not unitary actors. A decision to integrate, for

example, that constrains (by increasing greatly the cost of such a shift) the ability to shift to more egalitarian policies down the road may weigh greatly on some groups. These groups will then continue to regard and to oppose the decisions to integrate the economy into the world economy as a surrender of sovereignty even when the decision is taken democratically and is best seen as a welfare-improving one.

These groups also see several recent institutional arrangements underlying and embodying the globalization as being explicitly designed to preempt future options to reverse the integration process. Thus, during the NAFTA (North American Free Trade Arrangement) debate in the United States and Mexico, the most popular argument for NAFTA's passage by the US Congress was precisely that, once Mexico had entered NAFTA, it would politically "lock in" Mexico's markets-oriented and outward-looking pro-globalization reforms. Presumably, the cost of withdrawal from NAFTA would be so great that no political party could succeed in reversing the reforms which were integral to the NAFTA arrangements. The political ability to reverse the "reforms" later would be constrained, signifying to those who wish to work for such reversal that there has been a loss of "sovereignty" in this sense.²³

2. Strategic Action by Governments and NGOs: What I have said so far suggests reasons why globalization is seen as reducing sovereignty, even though it increases efficiency, income and wealth, simply because it is felt to be reducing the ability to exercise certain policy options. This reduced ability is, however, simply a reflection of the market forces as reflected in the globalization process. No "conspiracy" or "strategic" behavior by any foreign governments or

²³ Mind you, this is not the same thing as Ulysses chaining himself voluntarily to resist the sirens; here, he is chaining also others who have no such fear of the sirens.

agents is involved; the country is simply a victim of autonomous, “structural” developments in the world economy.

But strategic behavior impacting on one’s sovereignty also may be an increasingly important factor in a globalized economy. Thus, the strong nations, exploiting their increased leverage through globalization, may successfully impose on the weak ones demands that improve the distribution of gains from trade and investment in their favour, either bilaterally through aggressive actions that reflect the increased vulnerability of internationally-integrated weak nations to such threats (as in the case of the use by the United States of market-access-closing threats under the Special 301 provisions of its trade legislation against selected developing countries that do not accept the maximalist US version of desirable intellectual property protection) or multilaterally (as when socially-suboptimal, excessive intellectual property protection was demanded and successfully translated into concessions by the weaker nations in multilateral trade negotiations at the Uruguay Round which culminated in the transformation of the GATT into the WTO)²⁴ . In these instances, the weaker nations are forced into renouncing policy options that are clearly useful in the pursuit of their interest: the integration in to the world economy and the dependence brought by it increases the cost to the weaker countries of not yielding to such demands for the abandonment of their welfare-improving policy options.

But such strategic behavior also comes today through the proliferating nongovernmental organizations (NGOs), many of which have active international agendas (aimed at exploiting the leverage implied by the increased globalization of the world economy through trade, private capital and DFI flows, foreign aid programs et.al.) , not with a view to shifting economic

²⁴ On these questions, see my The World Trading System at Risk, op.cit.

advantage in their constituents' favour, but motivated instead by moral considerations. Today, there is a veritable explosion of NGOs around the world, even among the developing and the former socialist countries.²⁵ But there is little doubt that, on the international stage, as it impacts on national sovereignty, the well-financed and organized NGOs of the rich countries, whose impassioned one-page advertisements in leading newspapers such as The Financial Times and The New York Times cannot have missed catching your attention, call the shots. And the efforts of these NGOs are often aimed at the developing countries: e.g. at Mexico's environmental standards, at India's Narmada Dam, at Thailand's safety standards, indeed at an increasing number of issues.

A noteworthy aspect of these NGO efforts at intruding on the sovereignty of nations in regard to matters which the NGOs are targeting is that it reflects an enhanced sense of the obligation that we as human beings owe one another, transcending national borders. In turn, this phenomenon has contributed to an important shift in the current approach to questions of sovereignty: namely, that the nation state is no longer accepted by many as necessarily the legitimate and exclusive arbiter of its citizens' welfare

The sense of transborder moral obligation is of course ancient, long predating the modern nation state. As John Dunn, the Cambridge political theorist, has reminded us eloquently in tracing the origins of the notion of a "human community," and the consequent answer to the question of what human beings owe one another²⁶ :

²⁵ Lester Salomon, in a Foreign Affairs (July /August 1994; pp.109-122) article on "The Rise of the Nonprofit Sector", calls this the global "associational revolution" and studies the diverse cultural and political roots of this phenomenon.

²⁶ Cf. John Dunn, "The Nation State and Human Community: Life Chances, Obligation and the Boundaries of Society", King's College, Cambridge, mimeographed, 1993.

...an old answer [to the question of what we owe to others] with deep Greek and Christian roots, is that there is just one human community, "that great and natural community" (Locke 1988, Second Treatise, para 128), as John Locke called it, of all human beings as natural creatures, whose habitat is the whole globe and whose obligations to one another do not stop at any humanly created -- any artificial -- boundary. Locke had a very powerful explanation of why this was so, an explanation which tied human obligations immediately to the purposes of God himself (Dunn 1984). A pale shadow of Locke's conception, with God tactfully edited out, still lives on in modern secular understandings of human rights...and, even more diffusely, in anthropocentric interpretations of the collective ecological imperative to save a habitat for the human species as a whole.

Obligation implies rights. If then transborder obligations to others elsewhere are accepted, so must the notion that these others have rights which we are expected to sustain.

It follows then that the assumption in international relations since the Treaty of Westphalia, that nation states have exclusive domain over their subjects such that treatment of these subjects is a matter of domestic sovereignty and international relations therefore must respect moral pluralism, is no longer acceptable. As Raymond Plant has put it succinctly²⁷ : "The principle of cuius regio eius religio may have been central to the Treaty of Westphalia but the principle of cuius regio, eius jus is not compatible with the idea that there are basic human rights the moral authority of which crosses frontiers."

The problem, of course, is that the mere assertion of morality does not automatically put these NGOs on higher ground. Often, the demands they make are culture-bound and have no overriding moral force as when environmentalists in the United States seek to attack Mexico with trade sanctions for using purse seine nets to catch tuna and killing dolphins in the process; surely these demands appear to Mexicans to be morally defective in putting dolphins ahead of the Mexican poor (since purse seine nets are more productive). Also, Mexicans may well wonder why there is no equivalent

²⁷ Raymond Plant, "Rights, Rules and World Order", University of Southampton, U.K., mimeographed, 1993.

condemnation of equally cruel hog farming or chicken batteries within the United States itself, suggesting compellingly that there is no morally coherent approach here to the issue of cruelty to animals and of animal rights.

Often the NGOs, based in the North, also focus on the failings in the South rather than admitting the commonality of these failings everywhere and turning the spotlight equally on the moral turpitude in their own backyards. Thus, for instance, the Labour-standards lobbies have typically used the example of a deadly fire in a toy factory in Bangkok, Thailand where several women workers died, unable to use the exit doors which had been closed to prevent theft. But a similar fire had occurred in North Carolina in a chicken parts plant, with exit doors closed again to prevent theft, and was a far more serious matter since it was in the world's richest country. Why not use that example instead or alongside? Then again, the demands to include a Social Clause in the WTO has also been couched overwhelmingly in terms of the developing countries indulging in practices leading to unfair competition rather than focusing on the universality in practice of the failures in regard to the practices (such as, for instance, virtual slavery through bonded labour, say in India, and through cruel abuse of migrant labour, say in the US) chosen to be put in the Clause. Equally, one fails to see good faith efforts to include within the Clause practices where some of the developed countries would be more serious culprits (e.g. in regard to the effective as against the notional right to unionize, the right to worker representation in management, the treatment of immigrant labour etc.).

The feeling has steadily grown, therefore, among the developing countries that the morality that many of the NGOs advance to override national sovereignty via the use of trade and aid sanctions is selective, aimed at the developing countries rather than universal, is often a mask for protectionist intentions, and is hypocritical in throwing stones at other countries' glass

houses while building fortresses around one's own.²⁸ The NGOs' efforts are therefore unlikely to succeed until these fundamental flaws are fixed, as I optimistically expect that they will eventually as the NGOs mature and their activities and influence expand.

VI. Globalization and Democracy

The arguments above about the effect of the globalization process on national sovereignty have an obvious relationship, of course, to the ability of citizens to participate effectively in the democratic choice of policies within the nation state.

On the other hand, there is much that is positive for the spread of democracy in the developing countries when globalization is seen on the dimension of freer mobility of people and of ideas that goes with greater integration. The idea of democracy itself has spread through the postwar period, a role being played in the dramatic turn of the Third World to democracy by the increased awareness among the peoples there of the institutions of democracy in the developed world. Trade and investments have drawn the elites, the bourgeoisie, into deeper contacts with the democracies and have surely prompted their successful demands for democracy in their own countries.

Also, the quality of democracy has certainly improved with the increased trade and investments that, alongside the growth of foreign education and the availability of information through the medium of television (which brings telling images of individualism, political freedom, liberated women et. al. to vast audiences via CNN, BBC and other worldwide services), are serving as

²⁸ I have dealt with these problems in greater depth, in the context of environmental and labour standards demands at the WTO, in several writings. See, for example, my 1994 Harold Wincott Lecture, Free Trade, "Fair Trade" and the New Protectionism, Institute for Economic Affairs, London, April 1995.

catalysts for bringing ever more of the traditionally peripheral groups such as women increasingly into an assertive, and often a political, role in their own societies. To give just one telling example: the enormous expansion of Japanese multinationals in the European Union and in the United States in the last fifteen years, and the accompanying explosion in the number of corporate wives and children living in the West, has been a source of cultural change in the direction of modernizing the elite women (and men) of Japan and encouraging their inclusion in Japan's strengthening democracy and polity.²⁹ I can only applaud such outcomes.

²⁹ I have dealt with this question of Japan's political, economic and cultural evolution and convergence in "Samurais No More", Foreign Affairs, May/June 1994, in the context of a critique of the Clinton administration's Japan policy.

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