The Changing Role of the State with regard to Governance, Competitiveness, and International Economic Relations

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Abstract

Any country that aspires to sustainability and quality of life for its populace must have credentials to be both worth securing and be capable of securing inter-generational well-being with flows and partnerships across its borders. This pursuit of economic security through international economic relations is designed to facilitate the flow of goods, services, capital, ideas, information and natural persons. These flows induce domestic and foreign competition and encourage cross-border cooperation among interest groups. This process pervades governance frames, challenges notions of competitiveness and competition policies and fundamentally transforms international economic relations. The problematique raises many perplexing questions which this paper condenses into two main inquiries: How do the requirements of national governance, competitiveness and international regimes affect the Role of State in these three arenas ? Which ways of harmonising the trine of governance, competitiveness and international economic relations are efficient, equitable and cost-effective ? The paper presents a conceptual framework visualising international competitiveness and its impulses as onion-peels between the core necessities of what constitutes national governance and the bilateral, plurilateral and multilateral building blocks of international economics relations regimes. The paper analyses globalised and globalising sectors and national agendas to understand the strategic mapping of policy choices for U.S.A., EU, Japan, Russia, China, and India. The paper concludes that the role of the State must internalise national governance, competitiveness and international economic relations as necessary complements, not substitutes.

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1. Introduction

The international spread of activities of multinational firms is widely recognised as the main driver of world trade and investment. World trade grew faster than world production during the period 1950 to 2000 while foreign direct investment grew even faster than world trade during the same period. This growth process founded in techno-economic logic with global scope involves factor markets as well as product markets far and wide. However, the growth impulses are neither ubiquitous nor assured. The recent economic performance of many developed countries-home to the majority of multinationals-shows low growth rates of about 2 percent combined with disappoint-ing performances by many of the firms themselves. It is hard to accept market saturation, maturity cycles, development limits or the terrorist attack on America as plausible explanations for this predicament.

In knowledge societies, innovation is the main engine for growth behind designs of global value chains. Cross-border flows of goods, services, ideas, information and capital are buttressed by International Intellectual Property Rights(IPR) regimes.There are also huge populous countries like China, India and Russia accounting for about a third of the world's population but only one-tenth of its output (in PPP terms) which are consistently growing at over 5 percent per annum for the past twenty years, ten years and five years respectively. Yet, the lack of adequate effective demand for goods and services remains a structural impediment for insufficiency of derived demand for labour reflected in unsolvable European unemployment in particular and unemployment worldwide in general. This has high social cost and economic waste dimensions fraught with political consequences and is a constant reminder of unsolved problems in international economic relations.

Multinational firms, to appease their constitutents, have tended to take recourse to creative accounting, to achieve consolidation through mergers and acquisitions aimed mainly at scale economies and cost-cutting, to forge public-private partnerships to tap into and be cushioned by tax-payers' monies and to seek to influence the role of the State everywhere they operate.

Arrangements that firms make for cross-border value chains are usually justified by invoking stakeholder perspectives as their legitimate source of authority but the notion of stakeholder differs greatly from place to place. Firms differ in the weightage they assign to shareholders, bankers, credit-raters, prospective investors, employees, governments, customers or other firms and partners. The spatial dispersal of value chains evokes fears and anxieties in the mindsets of many-not least for the firms' constituents themselves but also others who want to know if intended and unintended consequences of these arrangements are benign or malign, inclusive or exclusive, collaborative or hegemonic.

2. The Role of State

The State invariably intermediates between individuals, groups local communities and enabling arrangements-national and international-to maintain global symbiosis without which cross-border value chains would quickly disintegrate into anarchy. The support that private and public actors seek from each other varies with the nature of the industry . Globalisation of tourism, transport logistics including packaging, media, education and IT can grow through private groups networking with other private groups, whereas industries like energy, healthcare and military require State to State arrangements and public-private partnerships as well. All this points to the need to examine the changing role of the State in the context of:

(a) a world economy where closer economic integration implies freer private flows of goods, services, ideas, information and capital than for natural persons and workers and where artificial juridical persons may claim privileges hitherto extended only to natural persons

(b) interdependence of life forms (natural and genetically modifiable), questions of biodiversity, and negative common externalities in environment and habitat matters,

(c) residual agendas across and within nation-states are in plentiful supply under paradigms of just and unjust claims, rights, demands and disputes.

(d) empowerment of individuals who may exercise authority by taking on roles as employees, customers, voters, tax-payers, savers, investors and members of countervailing power institutions such as trade unions, consumer groups, environment causes and who may frequently change costumes between these myriad multiple roles.

(e) arrangements through which goods, services and information are produced and transferred across international borders before and after being traded.

(f) the role of the State (in other States) on (a) to (e) above.

There are, however, two much more important reasons to be concerned with the role of the State.

First, despite the rhetoric of globalisation, there are very few global jurisdictions where rights of any kind may be enforced by natural persons and artificial juridical persons whereas a whole set of State prerogatives continue to be routinely upheld as national obligations for residents and citizens (See the recent cases Ferrazini versus Italy and Janosevic versus Sweden, decided by the European Court of Human Rights, Strasbourg). The world is not likely any time soon to adopt a `one person one vote' scenario on global matters, despite calls for global civil society (Nayyar, 2002). Nor is it likely that a one dollar one vote scenario could be sustained without serious economic and physical casualties through wars (including economic wars) this could trigger. `One State one vote' remains the norm in most international fora.

Secondly, Information and Communication Technologies (ICT) supported by international regimes such as the General Agreement on Trade in Services (GATS) and Trade Related Intellectual Property Rights (TRIPS) have intensified the competition for designing knowledge societies at a time when the frequency of State breakdowns, sovereign debt defaults and challenges to governments caused by civil war, discontent and terrorism have exponentially increased. Government failure has thus emerged as the more important problem than market failure as the new Development paradigm with entitlement, empowerment and employment as its corner-stones (Virmani, 2002).

3. An onion-peel problematique

Any country that aspires to sustainability as a nation-state together with sustainable continuous improvements in quality of life for its populace requires credentials to be considered worth securing by its constituents and the capacity to secure inter-generational well-being through its governance core. Wrapped around this core like an onion skin are notions of why countries compete, what they compete for and the rules-formal and informal, of how they may compete. When notions of international competition and competitiveness are open to contest, the reinforceable or changeable arrangements through which cross-border flows of goods, services, capital, ideas, information, and natural persons take place involve individuals, households, firms, and countries in contestable arenas to collaborate as well as to compete.

The engagement with governance as a primary task does not cease when pursuit of competitiveness by private and public actors drives national agendas; rather, the two get intertwined. The fused layers of governance and competitiveness are enveloped further through embeddedness in international economic relations as the outermost layer where the State and its constituents come into contact with international regimes and other international actors. At this outermost layer of the onion peel, the techno-economic transformation imperative for building cross-border value chains under paradigms of competition and collaboration is justifiably accused of technological and economic determinism when it ignores the highly complex, contradictory and ambiguous sets of institutions in which political, social, demographic and cultural features impact the role of the State (Figure 1 illustrates this onion peel feature of the role of the State at its three different thresholds).

This onion-peel problematique raises many perplexing questions for the role of the State which may be conceptually crystallised into five main inquiries:

1. What are the necessary and sufficient conditions for effective exercise of governance

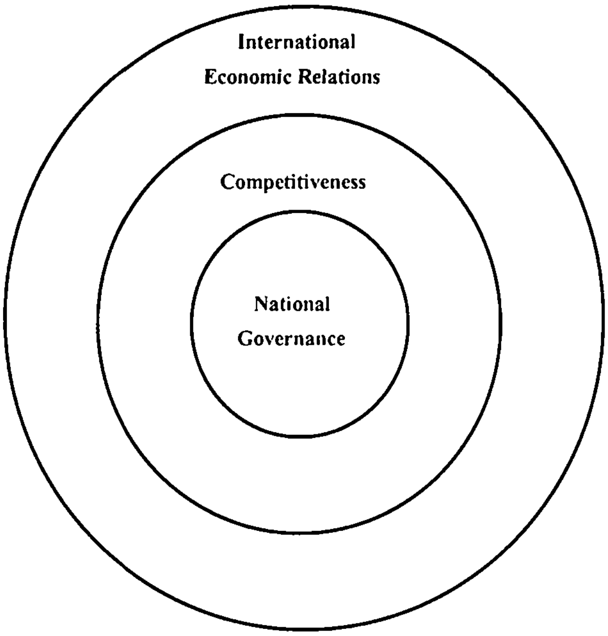


Figure 1: The Role of State

functions by the State in the concurrent pursuit of the onion-peel problematique of governance, competitiveness and international economic relations?

2. Do policy choices on the competitiveness dimension differ due to endogenous differences between countries and what differences do exogenous considerations make to what can be standardised or harmonised through globalisation ?

3. How do strategic choices in engaging with policies at different thresholds of governance quality in the three different arenas affect each other ?

4. Which ways of harmonising the needs of governance, competitiveness and international economic relations are efficient, equitable and cost-effective ?

5. Are there universal lessons that may be hypothesised as models around which global consensus and convergence over optima could provide a set of overarching prescriptions or guidelines for the role of the State ?

The pace and pattern of globalisation by firms is related to different kinds of techno-economic logic in different sectors/industries and to opportunities afforded by the market or by governments to develop and apply such logic towards preferred forms of internationalisation. For example, in automobiles, the norm was plurality in the design of manufacturing process and nationally organised marketing before global convergence occurred after Volvo, GM, Fiat were outcompeted by Toyota and Honda. The horizontal consolidation in banking (witness the recent merger between Grindlays, ANZ, Standard and Chartered Banks and the one between Kansallis Osake Pankki, SOP to first create Merita and further merger with Nordbanken and Christiania and Unitar) are survival tactics-not strategy. On the other hand, the vertical integration in oil with the emergence of and domination by the seven large oil companies (euphemistically referred as the 'seven sisters') is a long lasting state sponsored arrangement backed by the use of military force and economic sanctions from time to time. Thus, if the role of State , by itself or together with other actors results in conditions which induce or facilitate the pace or propulsion towards certain patterns of international trade or foreign direct investment (FDI), a pertinent question would be to inquire into the motives and powerbases of the largest globalised industries and the regional, national or global collaborations among sovereign states that benefit or suffer from such arrangements in respect of the primary governance core.

4. What constitutes governance ?

Defining the primary governance functions at the national level is a necessity because international competitiveness and its impulses are sandwiched between this core and the bilateral, plurilateral and multilateral building blocks of international economic relations regimes. Conventionally, every State aims to fufil, in its own way, five criteria by which its sovereign functions of governance over physical and economic space are sustained:

1. A monopoly over the means of organised violence to be able to compel people within its domain to accept its governance authority and obey its laws.

2. The capacity to impose taxes and enforce taxation as a source of revenue to secure continuity of governance, resources (including but not limited to assets) and regulate various kinds of flows across its borders.

3. The means to provide and implement a system of justice to resolve conflicts among private parties and between private parties and institutions and to adjudicate on statutory, contractual and customary claims, rights, obligations, demands and disputes.

4. The means to provide public goods like infrastructure, education and public health.

5. To provide basic rights and freedoms consistent with the notions of liberty and rule of law for everyone (a parliamentary system based on electoral democracy and a free media are desirable but not strictly necessary as curtailment of freedoms of the press and non-democracies like China can also thrive).

One may dispute the way this five-part test of governance is interpreted by different countries (because there is no universally agreed standard on this) but it cannot be denied that any country (Myanmar, North Korea, included) which can maintain its interpretation meets this test, with or without support from other countries, may aspire to competitiveness to sustain and increase economic security. Turkey, Chile, Argentina, Singapore, Botswana, Pakistan and Kazhakstan are examples. In every successful case where the five-part test is satisfied, private producing groups within and outside the borders cannot exercise absolute power or undue influence over the country. Consumerism doesn't move nations the way public spending does despite the lurking fear of economic casualties if the country were to be excluded or marginalised from waves of beneficient globalisation.

5. Competitiveness

The sole pursuit of competitiveness does not confer any such assurance, and is a poor substitute for governance as may be seen from the experience of so many failed African States such as Congo, Somalia, Ivory Coast, Eritrea, Ethiopia, Liberia and Sierra Leone but also from the history of a few surviving prospering dependencies like Costa Rica, Haiti, Taiwan, El Salvador, Panama or the Baltic States of Estonia, Latvia and Lithuania.

Mature democracies are able to use their energies and talents to give attention to competitiveness because governance itself is not under constant threat. This is rarely the case with the majority of developing countries or nascent democracies (and some countries fall into both categories).

Any country confident of satisfying the governance test for the long term would logically choose forms of collective action at the international level where similarly placed other State-actors could combine for the common good. But it would still be caught between the struggle of how to pay (source funds) for economic wars to improve its own position vis-à-vis other State actors through the paradigm of competition such that its engines of growth -the firms, get more *lebensbraum* than others to improve its relative position. Nations compete out of deep-rooted institutionalised envy embedded in national identities aggregated from the genetic pre-disposition of their constituents. This quickly transforms into a win-lose game being played under the diplomatic cloak of win-win international regimes where the latter, depending on the motives and powerbases of the State-actors and their partners-in-competition as private and public firms must negotiate or force their will.

6. International Economic Relations

For there to be any real negotiation at all, the parties must be attributed selective relative power with respect to resources including the capacity not to be forced or subdued and the freedom to negotiate must imply the right not to negotiate if the national collective interest so warrants. A classic case that comes to mind is the offer that was made in the 1980s to write off the entire Brazilian debt as a *quid pro quo* to bringing the Brazilian rainforests under international control-a proposal that Brazil rejected. Without taking sides on whether the offer was fair or whether the rejection was justified, it is necessary to reflect on preferred forms of worldwide arrangements by firms in globalised sectors. Perspectives in those very sectors among international State-actors that satisfy not only the test of governance can be revealing. However, this is useful only in cases where countries have not only explicit and ulterior motives but also the powerbases to pursue national agendas to exploit competitive advantage while coping with their vulnerabilities. The list is not long and Tables 1 and 2 present a synoptic overview of the summary position.

Table 1 Preferred forms of Arrangements by Private Groups

SECTOR	X/M	LICENSING	SUB CONTRACTING	JV FOR X	JV FOR DOM	ALLIANCES
ENERGY	*			*	*	
TOURISM	*				*	*
MILITARY	*		*		*	
MEDIA & ENTERTAINMENT		*				*
ICT	*	*	*	*		
TRANSPORT LOGISTICS & PACKAGING	*	*	*	*	*	
FIN-SERVICES	*					*
HEALTHCARE	*	*		*		
EDUCATIION	*	*				*

Key to abbreviations:

X/M = Exports/ Imports of goods and services
JV= Joint Venture for production/marketing
JV for X = Joint ventures for Export for third countries or buy back
Licensing = Licensing and Franchising
JV for Dom + Joint Venture production for domestic consumption
Alliances = Strategic alliances and resource sharing arrangements

Table 2 Absence of External Dependency/Competitive Advantage for selected countries/EU 2000-2010

SECTOR	USA	EU	JAPAN	CHINA	RUSSIA	INDIA
ENERGY	?	-	-	-	+	-
TOURISM	+	+	+	+	+	+
MILITARY	+	-	+	-	+	-
MEDIA & ENTERTAINMENT	+	-	-	-	-	+
ICT	+	-	+	-	-	+
TRANSPORT LOGISTICS & PACKAGING	+	+	-	+	+	+
FIN-SERVICES	+	-	+	?	?	+
HEALTHCARE	+	+	+	?	?	+
EDUCATION & RESEARCH	+	+	+	+	+	?

Key to notations:

+ DENOTES SELF-SUFFICIENCY/TRADE SURPLUS
· DENOTES VULNERABILITY/DEFICIT/IMPORT
? DENOTES POSITION UNCLEAR

8. Global Industries/Sectors and Some National Strategic Agendas (2000-2010)

Among these important global sectors, the most crucial sectors are energy (on which only Russia scores positively and USA is a doubtful candidate only in this sector), education and research (critical for sustaining human capital endowments-on which India is the only country in this group with an unclear position).

Table 2 also points to synergies between selected countries/ EU. The volume of trade and its terms would definitely make a difference to the terms on which future trade and investment will yield factor incomes which can cross-subsidise and alleviate some degree of imbalances but I do not intend to analyse that in this paper.

9. Russia, China and India

Russia, China and India are regarded by many scholars as countries with vast potential to link with each other for a number of reasons such as economic geography, socialist heritage, large planned sectors, rapid growth rates, advanced technologies, relative self-sufficiency, restructuring imperatives, and not least, strategic geo-political factors It is noteworthy that the value creation capacity for domestic and foreign firms operating in Russia, China and India, in the medium term, depends on FDI in sectors of their vulnerabilty combined with public investments to sustain capacity for innovation. America, China, EU, Japan and India all need to find long term solutions for their growing energy demand and Russia is an important source.

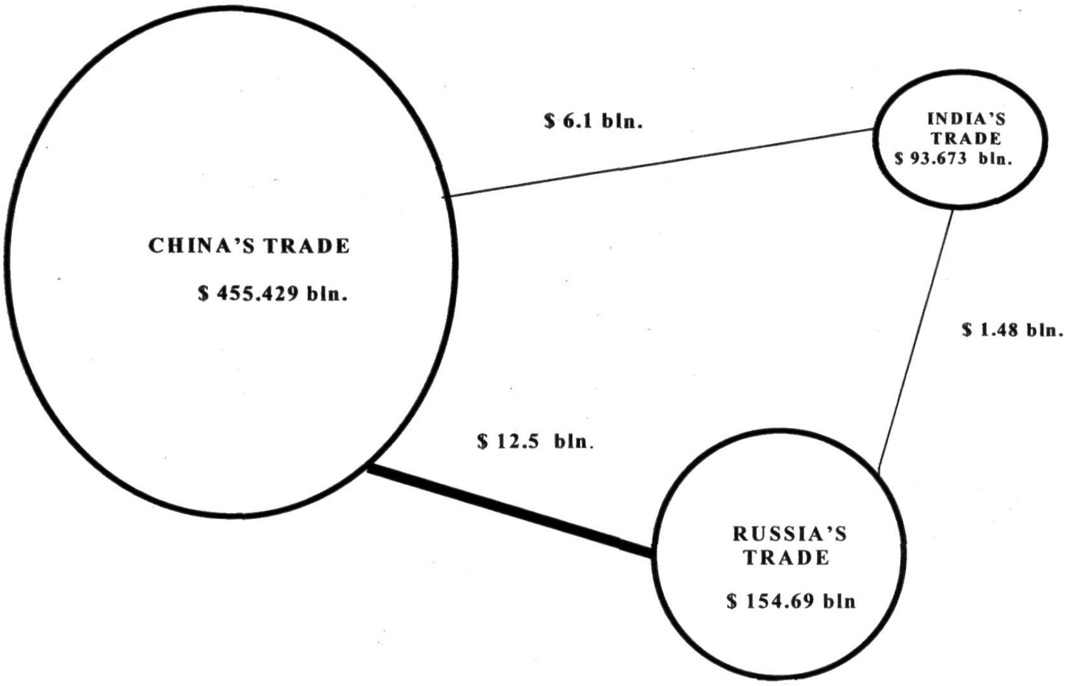
With a view to climb the value ladder in ICT, in healthcare, in transport logistics including packaging, Russia, China and India would compete with each other and firms are likely to set up value chains encompassing all three countries in niche segments. Media including audio-visual services and cinema are among the promising sector for India.

In charting national trajectories, China, with a slow and gradual transition to democratic institutions appears assured of efficiency and Russia is on a fast track to recovery (already to pre-1998 levels on a range of indicators) while cost and equity considerations can adversely impact India if it has to cope with governance problems at the cost of attention to competitiveness. India's main sources of loss of competitiveness are high energy costs, poor infrastructure and governance hurdles that slow down decision-making.

Feudal attitudes, circles of loyalty and misuse of public office has plagued Russia as well as India. Whether civil society can support new forms of social capital at the local community level could make a difference but here it must be noted that endogenous countervailing power groups are weak in Russia, China and India. International non-governmental organisations (INGOs) are mainly concerned with poverty issues to mop up economic casualties in a bid to soften the opposition to reforms an globalisation for distinct locations and sectors. Therefore, if the underprovisioning of public goods and infrastructural inadequacies are not speedily corrected with a view to build quality human capital, the governments practically cease to act as accelerators of incomes and employment, entitlement and empowerment.

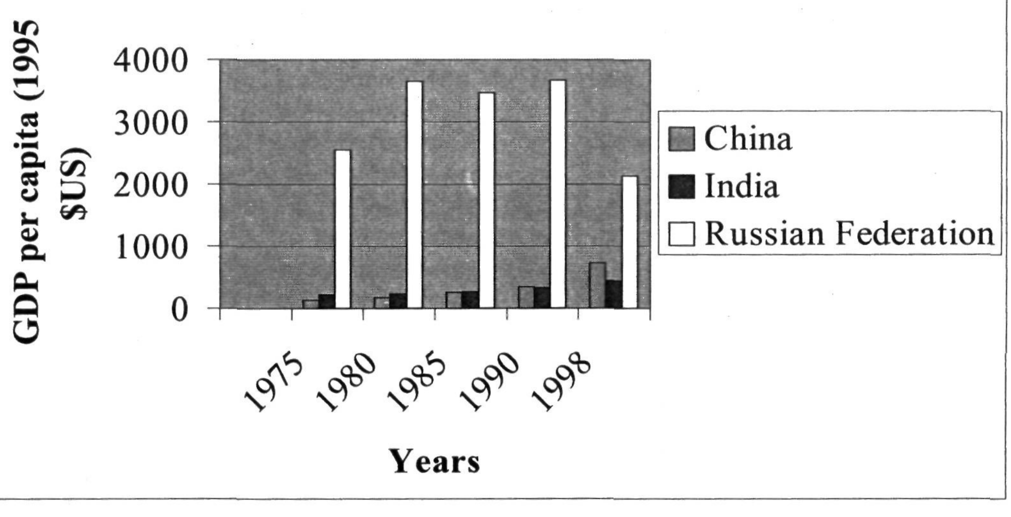
Technology, Capital and Knowledge are the axial principles of globalising knowledge societies. Professional migrants from Russia, China and India in the global diaspora do well but opportunities for them to do as well in their home countries is not there. This aspect points to the need for attention to sectoral as well as spatial dimensions of inequality of opportunity between countries and also across regions within countries, and local communities at risk. The prospects for economic cooperation between China, Russia and India as a regional triad are bleak. Strategic partnerships in this triad are difficult to envisage because internal systems, structures, governance mix and policy choices are so very different in these countries that trilateral harmonisation would be even more difficult for cross-border flows of trade and investment than present bilateral and multilateral arrangements. Secondly, the Sino-Russian trade is about eight times the level of Indo-Russian trade and twice the level of Sino-India trade which practically puts India out of reckoning until the time India can strengthen trilateral trade and enhance competitiveness.

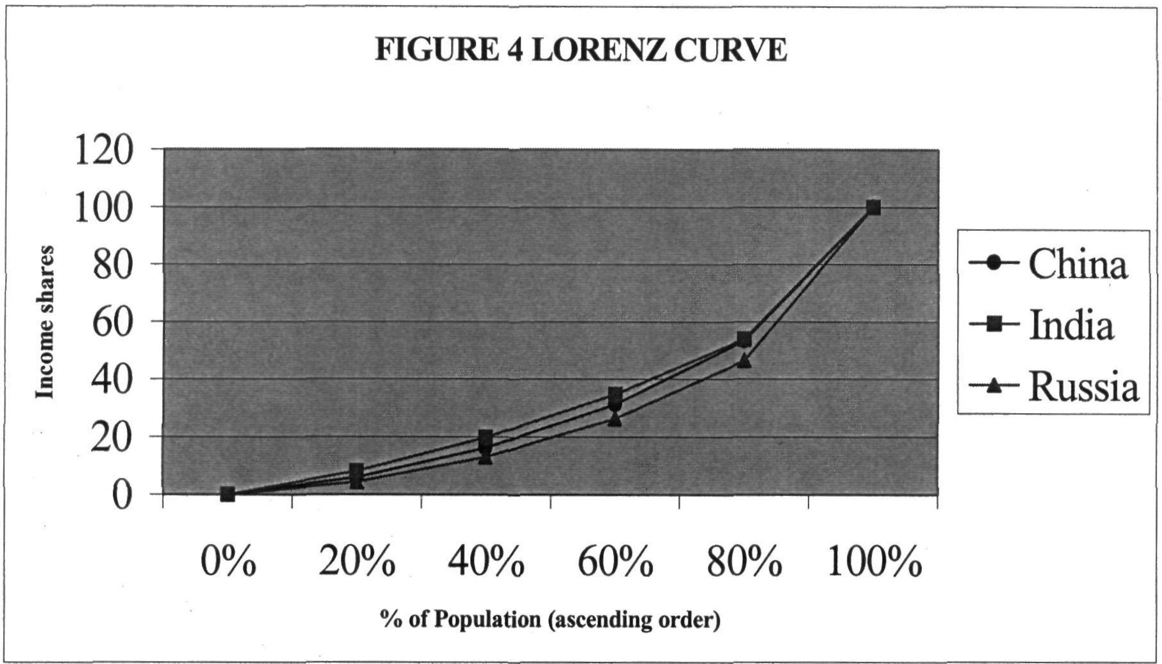
FIGURE 2. TRADE
(2003 estimated)



India is also at a much lower threshold of income compared to China and Russia as may be seen from Figure 3. In contrast, the income distribution is comparable as may be seen from Figure 4.

FIGURE 3. GDP PER CAPITA





Conclusion

The risks to regions and local communities have many dimensions. (Berry, 2000; Mathur, 2001). The globalisation process produces gainers and losers. However, these may occur at different locations due to disparities in investments in human capital which are a consequence of the logic of value chains constructed by private actors and require the role of the State to proactively intermediate between governance and international economic relations through the driver of competitiveness.

In conclusion, it may be stated that the role of the State has been transformed from its primary engagement with supervision of national governance and governance of local communities to concurrent preoccupation with competitiveness and international economic relations.

Since international economic relations can produce quick *quid pro quo solutions* for symptomatic relief, it is a tempting proposition for developing countries to pay for that and abdicate governance functions in favour of INGOs and feudal powerlords. The danger lies in loss of governance itself because this solution is anti-democratic and would perpetually require external alliances to bolster regimes rather than build civil society and strengthen the institutions of governance in ways consistent with exogenous tolerances for the changing notions of social justice and personal liberties. This is also a recipe for discontent among disadvantaged groups that would burden the governance functions with people determined to exercise countervailing power in violent ways.

The best policy alternative would be to recognise the five-part test of governance as a necessity and to evolve interpretations of it which are consistent with processes that create confidence that competitiveness and international collaborations are not unmanageable contradictions. In order to do that, a detailed study of the five lines of inquiry proposed in this paper would be required for different countries. This is all the more relevant for Russia, China and India that present very different structures at the core of governance with respect to globalisation. Policy options for growth trajectories consistent with stable national governance under alternative assumptions about the changing role of the State (for promoting competitiveness and increased participation in international regimes) require to be evaluated against benchmarks for efficiency, cost and equity.

We may visualise the three arenas as complements, not substitutes. Giraud remarks that "the productive produce goods and services that circulate in the global economy while the protected produce those that cannot circulate" (Giraud, 2000). This is merely a corollary of the problem that social cost and economic waste are protected in developed countries and social waste and economic opportunity cost are exploited (though not efficiently enough!) in developing countries. There is a choice between unemployment and growing inequality. However, there can also be trade-offs between one level of unemployment plus inequality and another, at different thresholds of governance quality when the changing role of the State engages with the trine to harmonise the trine. It is not possible to preserve a social paradise in an economic graveyard and it is also impossible to plant an economic orchard in a social desert. The interactivity of governance and markets requires global perspectives that promote creative interdependence.

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