

## **THE PARADOX OF GLOBAL CONVERGENCE:**

*An Examination of the Relevance of Government in an Interdependent World*

Richard Chu

March 26, 2001

Globalization implies a sense of international integration that pervasively encompasses the social, political, and economic spheres. In both the social and political spheres, it has a menacing connotation as a force that is breaking down important cultural distinctions and political cultures. That is to say, the cultural diversity that has defined humanity, and the political cultures that have defined community are being melted due to the increasingly porous borders that have defined the international system. Globalization, thus, is seen as a homogenizing force. This homogenization is seen as the result of economic globalization, where nation-states have, in the latter half of the 20<sup>th</sup> century, continued to integrate their economies by reducing trade barriers and encouraging international trade. This would seem to have come at the cost of national sovereignty. Nations-states seem to be increasingly unable to fully govern the territory under their authority in the midst of multi-national corporations, and international organizations. Arguably, however, this global convergence of economies, influencing nation-states and societies, while appearing to have a negative impact on national government's authority and legitimacy, is the result of nation-states' interests, and paradoxically make national government even more relevant by nature of being the formal bridge between the local and global arenas.

How globalization can be seen as a benefit to nation-states depends on one's interpretation and definition of it. While there is no generally agreed definition of globalization, two of its key features are its integrative economic character and the application of new information technologies. First of all, globalization is primarily interpreted as an economic phenomenon that is seen to influence both human society and the international state system. Reinicke notes that, "Globalization has been applied to different institutions: the economy itself, the market, an industry, a sector, or a firm. The term has been used to describe a trend, a strategy, a condition, and a structure. But whatever aspect one focuses on, in most cases, globalization appears to be understood as a continuous process of increasing cross-border economic flows" (6). It is this cross-border economic flow that appears to threaten state sovereignty and government ability's to autonomously formulate policy because globalization "implies that states and firms have no other choice but to modify their tactical decision[-making] to accommodate such extraordinary environmental change" (Palan, Abbott and Deans 13).

New technologies seem to also limit the ability of governments to exercise their full authority within their territorial boundaries. The "application of ever more powerful technologies

for the gathering, processing and transmission of information” has also been a characteristic of globalization (Jones 9). The technology, such as the Internet, and wireless satellite communications, seems to have limited the ability of states to control through regulation the type of information that is shared among individuals and groups. Reinicke notes that, “public policy officials have struggled to keep up with the speed of innovations...[in] modern technology in such areas as telecommunications [and as a result, technology has] simply eluded regulatory efforts or rendered them too costly” (16). The Canadian Radio-television and Telecommunications Commission (CRTC), for example, in a news release on May 17, 1999, explicitly said that they were not going to regulate the internet because “material transmitted over the Internet, which is significantly ‘customizable’ or capable of being uniquely tailored by the individual user, does not involve the transmission of programs for reception by the public and is, therefore, not broadcasting” (CRTC, *CRTC Won't Regulate the Internet*). That is to say, while the Internet is a public domain, because it does not conform to the established, legal understanding of broadcast communication, it cannot be regulated. The Internet is a technological hybrid between public and private domains, and is expansive to the extent that its content cannot be regulated at the national level without significant cost. With this example in mind, globalization is seen to reduce the ability of states to handle their own affairs as they alone see fit, because states now must deal with the “internationalization of finance and production; accelerating applications of transformational technologies; and the growing interconnections among the peoples of the world” (Jones 21).

Many theorists, however, note the importance of providing clearer understandings of globalization in judging the future of the nation-state’s ability to fully govern itself. The first consideration is to realize that the issue of globalization involves “the ‘general’ which is an aggregation of ‘particulars’” (Palan, Abbott, and Deans 13). Globalization is not just a general trend, affecting the world’s economic, political and social life, but a process whereby particular actors affect “the perception of the environment [which] is possibly the main cause for changing patterns of behaviour” (Palan, Abbott, and Deans 32). This creates, as Reinicke argues, a paradox where globalization is, “on the one hand, generally understood as a mere quantitative intensification of an ongoing trend...[and] on the other hand, [refers] to a fundamental qualitative transformation of the international system” (6). Thus, the interpretation of particular actions lies at the heart of the impact of globalization; “globalization properly refers also to the qualitative change in the organization and nature of trade. It is not just how much countries trade...but also the way in which this trade is structured, what goods and services are traded, and between whom they are traded” (Reinicke 24).

This difference between quantitative and qualitative globalization is influenced by the two dimensions of economics; namely, micro- and macroeconomics. In examining the quantitative aspect of globalization, Reinicke argues that one is examining “a largely microeconomic process” (11). This to say that some of the key actors in globalization are firms whose “heightened competition at home and abroad has led not only to new developments in corporate and industrial organization, such as flexible manufacturing, but also to the cross-border movement of increasingly intangible capital, such as finance, technology, knowledge information, and the ownership or control of assets” (Reinicke 12). As a consequence of their actions, globalization is increasingly examined in a qualitative context as increased international trade has led to particular macroeconomic developments, such as “increased economic interdependence, [which] has narrowed the distance between sovereign nations and regions,

requiring closer cooperation in national macroeconomic management” (12). The interpretation of both these elements, independently or together, gives substance to the impact of globalization.

From both a micro and macroeconomic perspective, globalization does seem to indicate a trend towards the reduction of government autonomy and authority. The growth of multinational corporations (MNCs) and the increasing authority of international organizations (IOs) seem to indicate this. Wade notes that, from a macroeconomic perspective, “most large industrial and financial corporations are now multinational in the sense of holding some of the productive assets abroad, and this is a real change from 1960” (63). This growth of MNCs seems to compete with governments with respect to overall influence over society since

on a world scale, more than a third of the employment and nearly a third of the sales of the world's sixty-eight largest manufacturing corporations in the mid-1980s was accounted for by foreign subsidiaries. One estimate says that all MNCs now control a *third* of the world's private sector productive assets. In terms of their domestic sales and income they control more than 30 percent of private GNP in Germany, France, Italy, the United Kingdom, Netherlands, Belgium, Switzerland, Canada, Australia and more than 20 percent for Japan and the United States. These figures have been rising since the mid-eighties (Wade 63, his emphasis).

Thus, it would appear that MNCs have as much, if not more clout than a particular nation-state. Even the rise in government spending as a percentage of GDP cannot compete with the growing influence of MNCs. While states

by virtue of [their] formal powers, can raise taxes and increase spending and thus increase its weight in the national economy...this by no means implies that its ability to conduct public policy for the economy and society at large has remained the same. On the contrary, it is an indication that, in order to maintain their operational capacity and fulfill their mandate to provide public goods and act in the public interest, governments in an increasingly open world economy need more resources rather than fewer” (Reinicke 53).

Thus, given that governments' authority is territorially based, and, by definition, limited in their scope, it would appear that MNCs have increasing influence backed by global resources. This seems to have reduced government's ability to exert its authority and protect its autonomy from external forces.

Governments also seem to be losing out to increasing foreign direct investment (FDI). Reinicke notes that, “it is widely recognized today that FDI...has become the principle vehicle of the deeper integration of the world economy” which has almost doubled the share of world output (19). And while FDI has traditionally been characterized as corporate investment with the purpose of starting up new branch plants, “one notable feature of the rapid expansion of FDI has been the prominent role of mergers and acquisitions (M&As). FDI has also “shifted away from primary industries...and basic manufacturing to high-value-added, knowledge- and R&D-intensive manufacturing, and to an increasing number of service industries” (Reinicke 21). Both of these quantitative facts about FDI suggest qualitatively that, the abilities of MNCs have the strong potential to surpass the influences of governments.

Even from a more qualitative analysis, government seems to be losing ground in their authority to implement and sustain public policy. This is primarily due to the increasing discrepancy in scope between political and economic spheres. That is to say, while political entities have been based on territorial control, the world economy is increasingly developing

networks that transcend all geographical borders, “defying the territorially fixed nature of the nation-state by creating its own, nonterritorial space” (Reinicke 64). This appears to challenge the monopoly of power states and governments have over everything within its borders because the “economic geography...subsumes multiple political geographies. Governments and governance, which continue to be bounded by territoriality, can no longer project their policymaking capacity over the territory within which a global industry...and, to an increasing degree, a global community of consumers...operate” (65).

In essence, information has been the key stumbling block for governments in a globalized economy. A fundamental reason why governments have become constrained by globalization is due to the fact that “since the operational capacity of governments to exercise internal sovereignty depends on considerable correspondence between the two spheres [of political and economic geographies], globalization has severely weakened the ability of governments to provide public goods and act in the public interest” (Reinicke 68). In many cases, government is limited in its ability to gain pertinent information of particular segments of the economy, thus making it unable to make the best choice on behalf of the public. This is not to say that government has not been able to obtain information. Governments do try to gain information by entering an industry through the creation of government owned enterprises. For example, “Petro-Canada was created to give the Canadian government a ‘window’ into the oil and gas industry, which was mainly foreign (i.e., U.S.) owned and controlled” (Inwood 146). And for a time, Petro-Canada fulfilled its mandate by providing government with insight into the industry. Critics of Petro-Canada, and of crown corporations in general, however, argue that the information comes at too high a cost as the corporations become “costly, bloated, unresponsive and unaccountable creatures, which compete unfairly in the marketplace against private sector corporations” (Inwood 149). So, eventually, government is forced to privatize certain crown corporations and potentially lose one means of access to industry information.

Governments do have other avenues, such as regulatory agencies, to gain information, although they too can become ineffective. Regulatory agencies are government agencies that attempt to protect the public interest by obtaining industry experts to analyze particular segments of the economy. The CRTC, the Canadian Labour Relations Board, the Atomic Energy Control Board are just a few examples of regulatory agencies who are able to take the pulse of a segment of the economy and in the process provide information to government. However, even regulatory boards can fail in this task to a certain degree as regulators “become ‘captured’ by the interests that [they are] supposed to be regulating” (Inwood 143). Regulatory agencies such as the CRTC are so limited in their resources to fully regulate the industries they are responsible for, that they ultimately become dependent on the corporations they regulate for most of the necessary information. This leads to the distinct possibility that corporations will only provide information that puts themselves and their industry in the best light, and withhold potentially damning information, leaving government with a skewed picture of that segment of the economy. In addition, regulatory agencies are limited in their ability to gain information because many sectors of the economy are dominated by MNCs, and they are not necessarily required to disclose everything about the corporation, but only the activities which fall under the jurisdiction of the agency. And given regulatory agencies are at a maximum, national in scope, the information gained is relevant only to the activities of MNCs within a nation’s borders, further skewing a government’s picture of the economy. Thus, “although national boundaries have remained points of contact as well as points of separation between political systems, they no

longer perform those functions in the strategies of global corporations or the consumption patterns of individuals" (70). Thus, the power of the state is put into serious question.

Despite what can be seen as strong evidence against the nation-state's ability to govern its own borders, there are several facts that mitigate the states' demise. The most basic is the fact that globalization "does not and cannot in any way challenge the *legal* internal sovereignty of a government" (Reinicke 66). Globalization is a primarily economic phenomenon, and as such is limited in what it can directly influence socially and politically. This is not to say that government cannot be influenced by corporate interests. Through political campaign financing and industry lobby groups, to corporate donations in policy programs (such as the injection of funds to pay for new buildings in post-secondary institutions), corporations can potentially influence political decisions that have social consequences. Having said this, however, from a legal standpoint, government remains the institution which serves as intermediary between MNCs and the citizens they are responsible for. This is emphasized by the fact that people still refer to government to resolve issues that they deem important. Social welfare, justice, equality, are just a few areas where government remains the dominant institution, and arguably will remain dominant for citizens in the future, criticisms of corruption aside.

With this legal aspect of national sovereignty in mind, globalization can be seen as a phenomenon that has simply required governments to modify the means by which to achieve their social and political goals. And what is perhaps clear is the fact that governments must, if they are to remain the dominant actor in domestic affairs, respond and react to the globalized economy in such a way as to further the national interest. As it has been shown above, people rely on MNCs not only for the products they produce, but the jobs they create. Thus, at the micro level, governments must deal with the reality that MNCs are becoming increasingly influential within their political realm.

On a macro scale, one could also interpret the increasingly competitive global economy as simply a change in focus from military theatres to economic arenas. In one sense, this shift could indicate a reduction in government's relevance, because it removes from the fore a key component of government, or state power--that of military power. Arguably, however, this shift not so much reduces government relevance, but rather increases it, because of the pervasiveness of economic activity within a state in a globalized economy. If economic actors such as MNCs work on a global scale, focused primarily, if not solely, on producing ever-increasing profits at virtually any cost (as a pure market economy would suggest), then it is up to government to mitigate this threat to national economic security on behalf of its citizenry. Governments have, and do try to do this by reaching out in to the global arena through "the decreasing significance of bilateral diplomacy and the concomitant increasing importance of multilateral arenas such as the OECD, GATT [now WTO], the [G-8], etc. where the 'rules of the game' are devised" (Palan, Abbott, and Deans 36). Thus, international organizations are not in competition with national governments, but are actually their creations for the purpose of regulating the global economy.

It is arguable that governments have always played a strong role in economic matters, and MNCs have not been as free from governmental influence as may appear. In the Canadian case in particular, the government was the key player in several industrial endeavours in the attempt to build the basic industries needed to strengthen the nation. Because of the small market and high cost environment, the government was forced to build such industries as transportation, communications and electricity, to name just a few. Arguably, this high level of government intervention exists to this day as MNCs have in fact "been up to its hips--and sometimes over its head--in politics" (Weaver 17-18). This is emphasized perhaps most strongly

by the fact that MNCs "thrive on the state and the state system. The state in OECD countries, for instance, finances about half of their research and development costs; provides them with sweeteners and subsidies and essential infrastructural support, i.e education, transportation and security" (Palan, Abbott, and Deans 34). Thus, the globalized economy, rather than having been developed in spite of the state, was created because of it.

So, given the significance of MNCs and FDI, there is perhaps little difference between international conflict and international trade. In one sense, both can produce significant pressures on the state's ability to provide the necessary programs and resources through public policy. In the midst of war, states are forced, whether in direct conflict, or in part of an alliance, to focus their attention on producing and providing necessary equipment and manpower to stop the enemy. In a competitive international economy, countries are in no less a challenging position. If they do *not* compete economically as a state against other states, by providing competitively favourable environment for economic growth and foreign investment, they risk losing out, further reducing government's ability to provide for its citizenry through public policy. Thus, rather than be a source of government weakness, globalization has simply shifted the distribution of influence from military to economic power.

What is then clear is that governments intended and have used the globalized economy to their advantage. Governments who focus on economic development are those who have an interest and goal in improving the standard of living and growth in their territories, and as such are very concerned with who owns what in the national economy (Palan, Abbott, and Deans 37). Thus, it could be argued that governments are "the source of economic growth...[by] encouraging economic actors to invest" (38). Taiwan, for example, has used the globalized economy to its advantage in social, economic and political affairs. By enticing MNCs and FDI to its territory, it has dramatically improved the standard of living in Taiwan, and at the same time, created new industries that it might not otherwise have developed. At the same time, because Taiwan is not a formally recognized state internationally, it has used its economic connections to forge informal political networks to further its public policy objectives at home.

An important consideration to realize, with respect to globalization and the relevance of government in effective public policy, is that governments have always wanted, and needed, a strong national economy. At first, this required significant government intervention as governments developed various industries on its own. In Canada, everything from provincial hydro-electric corporations, to the Canadian National Railway, to the CBC, to the precursor of Air Canada, were the result of government intervention in the economy. In addition, national markets were protected through various tariff and non-tariff regimes. But as national markets developed, came increasing private competition and the need to expand markets to expand the growth potential of industries within the state. Arguably, the development of a globalized economy is an indication of the success by governments to develop strong national economies. Governments, instead of focusing on developing and protecting its national economy to the extent it has in the past, it now can transfer resources towards other public policy arenas because of a strong, thriving national economy.

In the Canadian case, some would argue that the challenges faced by policy areas such as health care, are the result of globalization. The fact that Canada has a universal health care system has resulted in inefficiencies that make Canada relatively uncompetitive vis-à-vis the systems of other states, most notably the United States. In terms of wages, salaries, and infrastructure, this may be true. Canadian nurses, doctors, and other specialists are paid less than their counterparts in the U.S., resulting in the 'brain drain' south, and putting a strain on the

government's ability to execute its public policy. Arguably, however, while globalization has the potential to drain national resources, it has an equal potential to replenish. Governments can, because of globalization, continue to encourage international trade, increase its trade surplus to provide the necessary resources to pay for higher rates of pay and better working conditions. Alternatively, governments could actively recruit nurses from other nations who see Canada as relatively better working environment. Thus, globalization is not entirely a negative for governments in their ability to formulate and implement public policy.

This does not negate the fact that globalization makes governments relatively open to economic influences, however, given the global reach of economies, it seems to be a requirement of government to fully utilize the global scale of things for the benefit of the people they govern. It is impractical, and arguably irrational for a government to suddenly begin protectionist movements in the futile attempt to be in total control over its territory. A siege mentality, particularly in government, is hardly useful, and more likely to be extremely harmful for the country, and create opposite, damaging results.

Thus, while globalization is seen to impinge on the relevance of government public policy, such a perspective is not without its counterpoints. While government has no doubt become restricted in its authority due to MNCs, and international regulatory agencies such as the WTO, it is not solely to respond to events beyond their control. The globalized economy is an extension of the national economy beyond traditional borders which serve to benefit the nations they originate from. MNCs, while at a macro level, appears to compete against government relevance, appears so when a foreign MNC 'competes' with a domestic government. An American multi-national corporation, for example, would not threaten the relevance of the American government as much as it may threaten the relevance of the Italian government. It is highly unlikely that an American MNC would leave its home country and all the infrastructure and skilled labour that they invested in. This is not to say it is impossible, but it is unlikely that Microsoft would move to Vancouver given the economics of such a decision. In essence, if they were to move, it would essentially require government to not only pay for the relocation, but also give them a long-term incentive, both of which could be more costly for the government than the benefits achieved. Paradoxically, what globalization has done is force government to be more cooperative in order to further their own national interests. Governments, while appearing to have lost some of their autonomy and authority to the influence of MNCs and international organizations, have not so much lost it, but have chosen to not use them, in order to further the economic development of their respective territories. National economies, which began as isolated entities, are now interdependent (i.e. mutually dependent) on each other to provide the resources necessary to implement public policy.

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