Internationalization, Globalization and Regionalization:
Some Institutional Aspects of Systemic Transition

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The sub-title of this paper might well have been ‘The Hedgehog and the Fox (again)’ (Brivati: p. 103) since the perception of ‘globalization’ as the general context which informs all particular aspects of experience in the recent past and the present is now well established. ‘Just about everything happening everywhere is a consequence of it: “Globalization is not a phenomenon. It is not just some passing trend. Today it is the overarching international system shaping the domestic politics and foreign relations of virtually every country”’. (Lemann: pp. 86-87) Nicely parodied by Patten, fears of globalization assume menacing proportions: ‘Globalization has become the five-syllable terror of political economy. No clove of garlic can keep it at bay, there are no stakes to impale it at the crossroads. We are led to believe that it stalks lands and continents, sucks the lifeblood from economies, sacks industries, impertinently challenges the sovereign authority of governments’. (Patten: p.210) The view that the moving forces of globalization are basically economic is equally well established. ‘The anvil on which it is being forged is market capitalism. It is this that accounts for the energizing compulsiveness with which trade and finance, investment and manufacturing, transport and communications, are establishing unbroken connections throughout the world.’ (Keens-Soper: p. 53) The power of these forces is such that it seems governments have little choice but to enter the open ‘club’ of globalization by policy acts of internal and external liberalization of their economies and societies. The alternative ‘club’ is one of self exclusion from globalization by acts of insulation. The price of entry to this second club is apparently marginalization. (UNCTAD: Ministerial Round Table, 1996)

This paper will argue that the nature and dimensions of ‘globalization’ in the terms used above has its origins in the major changes in economic activity that have characterised the last two hundred years; basically the onset and spread of the industrial mode of production. These changes have given institutional shape to the economic systems which have framed the ways in which the dynamics of trade and technology have worked to establish, integrate and extend markets. That institutional development has been defined in the creation of national and international organizational structures. Economic outcomes, in the sense of economic development and performance measured by growth have been affected by the apparent functional efficiency of those organizational structures and their institutional elements. Those structures and institutions frequently have functions other than the purely economic; they may express cultures and ideologies for instance. Those non-economic functions have interacted with the economic functions to determine the general and specific outcomes of organizations and institutions. The dominant organizational form evolving over
the last two hundred years has been the nation-state both in the administration of its own internal affairs and in the definition of what are termed inter-national relationships. The paper will then argue that the economic pressures of trade and technology which have driven the defining economic elements of the nation state form are in the process of overwhelming that form. That is, through overwhelming the public policy instruments of control over economy and society available to national governments. The paper then speculates on the likely determinants, nature and consequences of successor forms and their institutional aspects. These forms may be multinational, supranational or less obviously a combination in some appropriate institutional form of supra- and sub-national entities.

The opinions of the introductory paragraph lead to considerations of the impact of globalizing developments on the form and nature of the nation-state. Essentially turning on issues of sovereignty, these considerations identify adverse impacts through globalization on the institutions of the nation-state and on the inter-national institutions that they have created by negotiation and agreement. In addition the experience of most societies over recent decades makes it clear that internal forces are at work changing the form and function of the nation-state. These can be seen in the policies of micro- and macroeconomic reform recently applied in developed societies, the intention of which is to give those societies a more competitive institutional base to meet the challenges of globalization. Rhodes identifies some factors at work in the ‘hollowing out’ of the state, in his case Britain. He claims that privatization, the loss of functions by government to alternative delivery systems like agencies and the limits on the discretion of public servants through new public management practices are the major factors at work in the ‘hollowing out’ process. He also links these factors to the loss of functions to European Union institutions (Rhodes; pp 138-139) Changing institutional forms are seen most clearly in private sector business activities. National, multi-national and trans-national forms have developed in the emergence of globalized economic relationships. These changing institutional forms of business are properly seen as the principal agents of globalization.

The impact of globalization on the nation-state form has been variously forecast. Some would argue for the capacity of the nation-state to exhibit its long run resilience in the face of external and internal forces of change. Modification of form relative to function it is suggested will sustain the nation-state, but with altered structures and institutions. In one opinion ‘the market will insist upon a strengthening of civil society in order to protect investment’. (Lemann: p.88) In some cases the dissolution of the nation-state as presently defined is predicted. The dissolution of the nation-state in its Westphalian form is seen to lead to any of a number of consequential entities and associated institutional arrangements. These forecast entities are generally defined as ‘super states’ or as
‘one world’ forms, this last to have several possible structures depending upon the locus of sovereignty. Some then debate the possibility of the ‘super state’ as an end in itself and draw various conclusions about the institutional consequences of this. Others see the emergence of the ‘super state’ form as a stage in the evolution of some sort of ‘one world’ form. A convenient way of thinking about these possibilities is to consider a hypothetical future in which these projected outcomes and their associated institutional elements had come about. This would provide an analytical framework within which to examine the developments of the known past and present circumstances.

A first step is to describe these hypothetical forms. A way to do this would be to speculate on the institutions that define them. These hypothetical future institutional forms generally and in their economic components have been the subject of extensive discussion. In surveying the institutional characteristics of the Australian economy in the twentieth century Kenwood draws heavily on Davis and North to describe these as being, (according to neo-classical economic theory) ‘market systems characterised by four main features.

The motivating force or incentive to economic activity is self interest, and the overall functioning of the system is regulated by competition working through the operation of the price mechanism. Given the regulatory power of competition, the system requires minimal intervention by government. In such a laissez-faire economy the main function of government is to establish the fundamental political, social and legal ground rules that provide the basis for the activities of production, exchange and distribution. These rules constitute the institutional environment within which economic activity takes place. ‘Rules governing elections, property rights and the rights of contract are examples of the type of ground rules that make up the particular and general concerns of the antecedent nation states. Some would argue that the ‘super state’ will develop in an attempt to retain the control of ‘government’ over economic and other affairs which the challenge of globalization to the present nation state form threatens to overwhelm. More positively, the ‘super state’ would evolve to fulfil the functions proposed by Hegel as the systemic framework to protect and assert the cultural values of the society against external threat from the cultures and values of other nation states or ‘super states’ and presumably from the threat of cultural homogenisation through globalization. Some large questions of ends and means are raised in the current debate on the likely systemic consequences of globalization. How would any ‘one world’ or ‘super state’ form come about? Is the ‘super state’ to be seen as an end in itself or as a means of achievement of the ‘one world’ form?

The development of the ‘one world’ form it is argued would come about through the further
extension of the market framework of economic activity as the forces of trade and technology sustain their liberalising influence on international economic relationships. Sustained pressure to assert market forces over intervention, global over national influences and private interests over public policies will break down barriers to allow of freer flows of traded goods and services and factors of production. Negotiations between nation states on the basis of mutual self interest will support the operation of institutions like the International Monetary Fund and the World Trade Organization. Business of a global dimension will be transacted by private corporations in whatever succeeds transnational organisational forms. The ‘Gods diplomacy’ of Cobden will bring about a global economic entity to underpin a ‘one world’ system; a withering away of the state in a capitalistic context. An obvious difficulty in this scenario is the question of sovereignty; by what mechanisms and under what conditions will sovereignty, basically control by the nation state, pass to the global entity?

The ‘superstate’ develops through the recognition that the nation state is sub-optimal in relation to its presumed economic and more general functions; security against external threat for instance. The translation to supra-national institutional forms occurs in response to that perception, again through a process of inter-national negotiations (in the absence of some surge of federalist idealism) but within a defined region. The significant issues of sovereignty transfer from the national to the supranational level still remain but are presumed to be easier of resolution in regional circumstances where mutual self interest is more easily recognised and may be supported by degrees of cultural compatibility. Some concerns over possible adverse inter-national effects of the development of ‘super states’ has been expressed. These entities may be sufficiently strong in terms of economic performance and basic security capabilities that they can adopt discriminatory and illiberal external policies and in that way impede economic progress and mutual security arrangements in the world. This represents the ‘stumbling bloc’ view of the consequences of ‘super state’ forms.

Given the economic arguments advanced to explain the potential development of ‘super state’ and ‘one world forms’ a more likely alternative to the ‘stumbling bloc’ view would be the ‘building bloc’ role of the ‘super state’. That is that the economic benefits that would accrue through the integration of national systems into the ‘super state’ would enable general consent in the movement to global integration in a ‘one world’ system and by significantly reducing the number of participant governments involved in such a process would ease the negotiating problems raised by the transfer of sovereignty. This view suppresses the problems raised by the
likely opposition on cultural and social grounds to such a transfer or the degree to which the attitudes of any ‘super state’ might be dictated by a particular dominant cultural paradigm rather concerns of economic performance. This last may be significant since a simple projection of present arguments about globalization representing the superiority of market based capitalistic institutions in a context of liberal democracy would suggest some basis for fears of hegemony. That ‘globalization is Americanization’ (Lemann: p. 88), with conclusions to be drawn on the likely systemic point of convergence of current integrative tendencies.

Some of these speculations about future systems and their institutional consequences might now be related to the experience of the recent past and the present. Some developments of the immediate future might also be anticipated. The relationship between economic development and change in institutional structures over time has been the subject of much description and analysis. The role of industrialization as an agent for change in these relationships has been a topic of particular discussion. The nation state has acted as the main institutional context for those relationships over the last two hundred years. Economic change, in particular the imperatives of trade and technology, has served to define the form and function of the nation state over that time. The nation state has, in part, been the creation of economic change and its associated political, social and cultural effects. These effects have exerted homogenising and centripetal influences on the nature and control of the nation state. In other cases economic development and the regional articulation of institutional arrangements have served to create a nation state, as in the emergence of Germany in the nineteenth century for instance. The nation state has acted as the moving agent of economic development, generally industrialization, through tariff policies and other forms of assistance and has responded to the market pressures of industrialization by extending the ambit of control from the nation state to empire.

This imperialist surge of the later nineteenth and early twentieth centuries could be seen as the creation of larger economic entities to allow of some economic efficiencies. In that they were empires of coercion rather than consent an important institutional element proposed for any post-nation state entity of the future was missing. An ‘empire’ of consent was however evolving over the eighteenth and nineteenth centuries in the United States and the drive to economic pre-eminence that ‘empire’ achieved served to highlight the benefits of large economic areas governed under a constitution that provided for common liberal political and economic arrangements. The United States of course achieved convergence on that system at the cost of a civil war as well as through a general perception of the benefits of that system. Economic and
imperial trends brought the British an empire of global dimension but could not create a single economic and political area out of the Dominions given the lack of geographic contiguity and the desire of some to seek industrialization through protectionist policies.

The emergence of the United States as the first super state by the beginning of the twentieth century highlighted the problem of other regions. The nation state forms of Europe for instance, which had so recently appeared were already obsolescent in functional terms of economic efficiency and basic security. That obsolescence was reflected in the imperial surge already remarked and in the conflicts in Europe which characterised the later nineteenth century and the first half of the twentieth century. ‘Concert of Europe’ and stabilising ‘Balance of Power’ relationships were replaced by destabilising ‘Imbalance of Power’ arrangements aggravated by totalitarian ideologies of Left and Right in the twentieth century. The outcome of that experience in a devastated and dislocated Europe split into the spheres of influence of rival superpowers in Cold War confrontation served to bring at least the western partialism of Europe to see a future in cooperation. The object of that cooperation would be to create some integrated entity in their region as a means of achieving economic wellbeing and security against external threat. The degree of consensus evident in continental Western Europe on the ends and means of integration by the 1950s suggests that the conflicts of the previous century might represent civil wars of systemic convergence in Europe.

Since the Second World War the international community has sought economic progress through liberalising policies on a multilateral basis underpinned by international institutions. Over the same period some nations have sought advancement through cooperation on a regional basis. International arrangements have been affected by global issues of a cyclical and structural nature and at times by the pursuit of policies of self interest by nation states or groups of nation states; European, American and Japanese agricultural policies for instance or the activities of the Organization of Petroleum Exporting Countries. Less obviously, the liberalization of the international economy has been obstructed by the tendency of governments of nation states to protect the particular interests of declining industries in response to political pressures. In these circumstances governments retard the growth of material wellbeing and the nation state form, its institutions and its internal dynamics have adverse general consequences.

Regional developments have gone furthest in Western Europe over the post-war period. The failure of federalist idealism in the later 1940s meant integration by functionalist processes as
the necessary means of advancement to the supranational entity desired by some. That advancement has been assisted by the expansionary conditions of the world economy over the period and by the beneficial intra-European effects of market integration and associated development. The advancement has been hindered by the powerful reassertion of the interests of the nation state by de Gaulle in the 1960s and by Thatcher in the 1980s and the degree to which European affairs have in consequence been determined by inter-national processes. The internal processes of European integration have also at some times and in some policy areas and economic sectors exhibited adverse external tendencies which given weight to concerns about the ‘stumbling bloc’ potential of such arrangements. On balance the European drive to integration through the creation of common institutions has almost certainly been a major contributor to the increases in the material welfare of its peoples. In world affairs the European Union by speaking with a single voice in international economic forums has contributed to such liberalization as has been achieved against the expression of special interests in recent decades.

Over the 1980s and the 1990s the European Union has moved decisively to relaunch the higher set of European ideals that characterised the 1940s and to support this move by institutional changes which will shift European affairs closer to a supra-national level; closer to the institutional elements of a ‘super state’ in the arrangements for economic and monetary union for instance. In part this was due to the impact on Western Europe of the collapse of Soviet type systems in the East but it was also due to a genuine wish on the part of some European elites to move to complete the processes of European unity begun fifty years earlier.

Some other groups of nation states in other regions have attempted regional economic integration in various forms for various reasons in the post-Second World war period. From 1949 the centrally planned economies of the Soviet type in Eastern Europe sought some form of integration. The Council for Mutual Economic Assistance initially gave institutional legitimacy to trade patterns administered in favour of the USSR but later attempts to derive gains from the integration of national economic systems failed, principally because of the non-market nature of those systems. In the 1960s some development economists advocated the formation of regional trade groupings as a means of escaping the scale constraints which impeded inward looking, import replacing industrialization strategies. Again, the degree of intervention in the markets of the economic systems involved meant little or no success in integrative strategies in regions like Latin America and East Africa. (Bhagwati; pp. 149-150) For much the same reasons the terms of the Australia-New Zealand Free Trade Agreement of the 1960s brought few benefits to the two participants.
The 1980s and 1990s have seen a resurgence of regionalism in the world economy. There has been a general shift in the institutional context of economic activity within the nation state from public to private, represented in its extreme form by the collapse of central planned systems in Russia and Eastern Europe. The liberalising reforms of micro-and macroeconomic policies in the market-based economies has released internal constraints on the achievement of external economic policy aims like integration. This explains the very different nature of integration in the 1980s and 1990s; the Australia-New Zealand Closer Economic Relations Agreement, the North American Free Trade Area and MERCOSUR in Latin America as some examples. Other reasons are the perceived need to extend the ambit of political control of economic affairs in the face of the challenges of globalization to the governments of existing nation states; defensive alliances in the face of European developments of deepening through economic and monetary union and widening through the admission of new members. (Bhagwati: pp. 150-152) This spread of regionalization has occurred coincidentally with a sustained drive to further liberalization of the international economy through multilateral negotiations in GATT/WTO; the Uruguay Round and the push to set the negotiations of the Millenium Round in train. This multilateral endeavour in part reflects the benefits anticipated for participants, especially in market extension for their expanding resource industries, especially the services sector and the need to reduce any adverse effects from the increased regionalization being driven by much the same forces.

Some conclusions can be drawn from the evidence of the recent past. Firstly, that markets work. The beneficial effects of global economic liberalization on the economic experience of individual nation states is not in doubt. Within this the performance of the United States economy, at least in growth terms, confirms the efficiency of market based economic systems operating in liberal democratic contexts. The experience of Western Europe confirms the obvious but often ignored truism that the benefits of economic integration are derived from the more efficient workings of the market; the capacity of the EEC/EC/EU to sustain growth through market extension and integration in the face its self-imposed economic, social and political burdens is sufficient evidence of this. The negative evidence in favour of the assertion is provided by the failure of the centrally planned systems of the Soviet type, either as individual states or in their integrated form in COMECON.

The second conclusion is that for the highly developed economies the nation state may be inhibiting economic advancement by its attempts to protect declining resource industries from import competition especially if those industries are culturally and politically sensitive. To a degree this is balanced by the way in which these states must negotiate increased access to world markets for their
expanding industries. This may lead to attitudinal problems with real economic costs in terms of outcomes; the present American preoccupation with reciprocity and the free rider issue in international trade negotiations for instance. The European Union encounters the same problems as a consequence of its internal dynamics given the functionalist path to integration the Europeans have chosen.

A third conclusion is that economic development and growth could not be achieved by inward looking, import replacing industrialization strategies based on central planning principles. Neither could development and growth be achieved through the integration of planned economies. A strong role for government in export led development strategies of the Japanese type was much more successful in terms of performance outcomes but events of the more recent past suggest the finite possibilities of such catch up strategies and the problems of ‘Asian values’ for instance and their place in the institutional dynamics of the social, political and cultural contexts that have framed these strategies.

Speculations on the nature of future institutional forms in conditions of systemic transition are frequently countered by assertions of the functional efficiency of the nation-state form. In Hegelian terms it is that form which best expresses the cultural values of the ‘nation’ and best secures through the ‘state’ and its institutions the functional efficiency of the society. These arguments ignore the very recent development of the nation state in the form and functions in which that term is understood and the degree to which cultural values are changed over time by the institutional and intellectual environment. The sub-optimality of the nation-state form to ensure the economic wellbeing and basic security of its people is the very factor which has pushed human relationships to social organizations of a larger dimension. As Karl Lamers, foreign affairs spokesman for the Christian Democrats in the Bundestag put it in 1996 ‘ A community can only make sense if it can begin to solve its existential problems. If a nation state can no longer do that by itself, its failure underlines its political legitimacy. To secure its legitimacy it has to go a step higher than the nation state’. (Vines: p.79) The question is what systemic form those organizations of a larger dimension will take?

Dynamic change generated by trade and technology is the source of economic growth but that change produces adjustment problems as a cost of that growth. Governments face political difficulties balancing the general benefits of growth brought about by trade and technology against the particular costs brought about by the same influences. A shift to a ‘super state’ form would reduce the international negotiating agency to one from many while still sustaining a degree of control over
externally sourced shocks through the creation of a Common External Tariff and other institutional definitions of that ‘super state’. The economic requirements of some characteristics of the ‘nation-state’ form, a legal system backed by the coercive power of the state to enforce contract and to secure property rights for instance (Keens-Soper: p. 58) could equally be provided through the ‘super state’ form. More generally, the establishment of common institutions would facilitate acculturation to a regional rather than a national identity, a process which contemporary nation-states have already gone through in relation to their own sub-national cultures in the course of their evolution; Germany in the nineteenth century for instance.

The creation of ‘super states’ by reducing the number of nation-states some would argue, will by their nature obstruct progress to higher levels of organization and cooperation. Seeking growth through further extension of the market would however push these ‘super states’ to reduce their barriers to economic integration, for simple competitive reasons as well as that need for material benefit derived through the gains from trade. The behaviour of the United States, a good example of an operative ‘super state’, in the post-Second World period is some evidence of this. In these conditions of cooperation through the pursuit of mutual self interest the same spillover effects of functionalism that have informed the progress to higher levels of integration in the European Union would operate to effect the transfer of sovereignty necessary to produce a ‘one world’ outcome.

Would the ‘super state’ or ‘one world’ forms exhibit centripetal tendencies that would have adverse effects on economic performance and the political and social experience of individuals or regions? Evidence from the recent history of the European Union is relevant to this issue. Some in the nation-states of that Union feared that its integrative processes would dissolve the nation-state and concentrate power at the centre. To a degree that has occurred and will continue to happen, but the institutional dynamics of integration have worked both ways: centrifugal forces have devolved some of the economic, political and social functions of the nation-state to sub-nation-state levels in devolutionary processes. An institutional recognition of the dysfunctionality of the nation-state in its European form: too small for the big things, too big for the small things as an American commentator put it. As a result a two tier European institutional structure is emerging; a federal, potentially confederal form of ‘super-state’ with central and peripheral identities to all its activities, especially in its cultural dimensions. ‘Recent years have witnessed a remarkable trend towards a more fragmented, heterogenous, and pluralistic culture. Independence and self-fulfillment are stressed in all sociological inquiries’. (Zielonka: p. 149).
This is entirely consonant with the more general experience of societies in the recent past which shows that economic change working through trade and technology in post-industrial societies is radically changing, often disaggregating the public and private organizational and institutional forms developed during earlier stages of economic development and reorienting lines of communication from vertical to horizontal axes. These organizational and institutional changes simply reflect the obvious; that human wellbeing in every sense depends upon an efficiently functioning market place of ideas. The higher the stages of economic development and growth achieved the more obvious that becomes. The more efficient the market of ideas the better the prospects of resolving problems of market failure like environmental pollution, without great costs in terms of freedoms foregone. Competition in that market place of ideas, facilitated by freer flows of goods and services, of factors of production and increasingly of information along horizontal lines of communication should ensure that efficient functioning. Possible social outcomes encourage speculation on the institutional forms of future globalization, regionalization and civilization.
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