



# **JOURNAL OF DIPLOMACY AND FOREIGN RELATIONS**

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# **MALAYSIA'S FOREIGN POLICY IN THE AGE OF GLOBALISATION: THEORETICAL RELEVANCE AND PRACTICAL RESPONSES**

**K. S. BALAKRISHNAN**

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## **INTRODUCTION**

An observation on Malaysia's foreign policy will be shallow without proper theoretical deliberation on the subject. It is also a practice among policy makers to avoid the theoretical dimension by leaving it to academics. However, it must be reminded that theory cannot be developed in a vacuum. It is dependent upon practices in the policy-making arena. There is also a blatant negligence in most of the writings on Malaysian Foreign policy, when only few were successful to put it into proper theoretical context.

Therefore, it is the aim of this article to use foreign policy theories in assessing the Malaysian context. With the dawn of the globalisation epoch, it is indeed crucial to understand how and why Malaysia responds to its international surrounding in a particularly way. While one theory would not be sufficient, a few foreign policy theories are brought in to explain the dynamics in Malaysia's foreign policy in the contemporary context. The practical dimension of foreign policy is also discussed briefly under several major themes such as ASEAN, the developing world, Look East, China, the Islamic world and dealings with the west. The thesis would be mainly on the struggle for national survival and the quest for an equitable global order.

## **FOREIGN POLICY THEORIES AND THE MALAYSIAN CONTEXT**

It is not surprising to argue that theoretical writings in Malaysia's foreign policy are rather limited. The development of theory in foreign

policy analysis in a developing country like Malaysia needs a much more longer period to look at trends on the discourse. The change in elite political leadership alone does not guarantee an objective premises for foreign policy analysis, hence the development of cogent theories. Time and history to a large extent dominate foreign policy theories in developing countries, particularly in democracies of the developing world. This is so, simply because, unlike in a developed society, discourses and the culture of debate in foreign policy is still limited in the Malaysian context.

Therefore, in clarifying my position, it is not wrong to set a premise that Malaysian foreign policy continues to remain within the domain of the political elite. Leadership has for quite sometime since independence, continued to chart and construct foreign policy based on the traditional notion of national interest. And this myopic view of foreign policy analysis, be it in realism or neo-realism, seems to be prevalent in developing countries, including in the Malaysian case.

Malaysia, like most of the developing countries, as well as the developed one like that of the United States, strongly believes in the rationalist paradigm. Obviously, once again, the realist notion of maximising interests, hence power as the leading spokesman of the developing world tends to be revealed here, thus explaining the construction of Malaysia's foreign policy. However, an important question remains to be answered here, which is contradicting the realist billiard ball model, particularly on why Malaysia is against war and promotes peaceful resolution of conflict. While such a foreign policy position appears utopian in nature propagated by the idealist framework, it is indeed crucial to examine the real objectives behind Malaysia's foreign policy. In this context, one has to submit to the reality whereby the promotion of peaceful conduct in international affairs fits well with small states survival. This also goes very positively with Malaysia's strategic role in articulating its foreign policy predicaments along the line of the developing world. Strategically, the promotion of Malaysia's interest overtly and out rightly, albeit confrontational with the west occasionally, does not hurt the government severely simply because the backdrop of problems raised by Kuala Lumpur in the international arena works in tandem with the larger interest and predicaments of the developing world. It is here that the smartness of policy makers warrants praise.

In another dimension, Malaysia's promotion of national interest very often appears pragmatic because of its ability to balance the confrontational attitude towards the west and its support for developing and Islamic countries with neo-liberal ideals. Whether we like it or not, neoliberalism is inherent in Malaysia's foreign policy. This can be explained by Malaysia's submission to World Trade Organisation and the practice of open market policy including merchantilism. Some may argue that Mahathir's foreign policy orientation is often confrontational towards globalisation and capitalism, a position against neoliberalism. The truth is, Malaysia is still

among the top twenty trading nations which prefer an open global economy with some form of architecture that could mitigate the harmful effect of capital flow and the arms twisting tactics of some developed countries, especially the US and Australia.

Therefore, to explain the Malaysian foreign policy within the context of nationalism or more specifically, policy making as a national choice enterprise that resembles the billiard ball model of the realist tradition is not wrong indeed. The foreign policy of Malaysia is quite transparent for observation and analysis. Its strategic positions are simple and which fall within both a reactionary and visionary practice of foreign policy. The two decades of Mahathir's era has become a clear testimony that attests to the role of a rational actor on both its foreign policy decisions and the international environment that it deals with.

Generally, the foreign policy theory of national choice assumes states or government as rational actors, which seek to maximise interest. Interests are explained in the form of power struggle. It also works on the pretexts that states are still a primary actor in the international scene. This is simply based on the premise where states as primary actors continue to maintain the legal right to use force when deemed fit. It has a clear territorial boundary, and permanent population subjected to a government that remains as a supreme authority. The exercise of sovereignty by government over its territory and subjects and the psychological identification of people to nation-state naturally enhance the power of the state in becoming a primary actor.<sup>1</sup>

The rational choice theoretical model focuses purely on the goals of the officials representing the nation state. Their decisions and foreign policy orientation are explained by observing the values in their goals or policy objectives. In addition to that, the kinds of instruments officials use to pursue foreign policy objective are critical in understanding this theory in a simple manner. In sum, rationalism assumes if the goals of the decision makers are known, one could both predict decisions as well as understand why such decisions are made.<sup>2</sup> Basically the role of foreign policy is to ensure survival and preserve sovereignty.

Another vital aspect of the rational choice model is that normally policy makers and decision makers in foreign policy are seen as rational beings that behave rationally in their strategic calculation of international arena. Here rationality is basically defined as "purposeful, goal directed behavior exhibited when individuals respond to an international event or environment".<sup>3</sup> It is argued that policy makers will conduct extensive cost benefit analysis. The importance for rationalism in policy making involves problem recognition, goal selection, identification of all available policy options and finally the decision on choice.<sup>4</sup>

Whether Malaysia's foreign policy decisions are made in a rigorous manner following the steps assigned above reflecting the rational choice theory can be questioned. Critics may argue that foreign policy has been always within the domain of elites. Nonetheless, room for discussion and selecting options so that foreign policy decisions are effective and move along with national interest cannot be dismissed in the Malaysian context. This can be verified when one conducts specific studies on how various agencies are involved in the process of fact finding that helps policy construction. While it is easy to pin point that political elites in Malaysia have a bigger say on foreign policy, it also needs careful observation on how they derive decisions that shape policy. While Prime Minister Mahathir's active role in foreign policy is so glaring, there is a tendency among analysts to provide less emphasis on the kind strategic institutions that have emerged during his era. The role-played by key institutions in support of rationalism and policy choices have not been well articulated so far. It is also not in the interest of this paper to delve further on this.

To be more objective however, it is crucial to examine other foreign policy theories that may contribute in closing the lacuna created by the rationalist model. Realism that facilitates rationalism is not without pitfalls. As a theory, it may not be sufficient to explain the Malaysian context in a comprehensive way. Limitations in theoretical enterprise are also not a good excuse to halt the explorations in foreign policy theories. The utopian model could come in handy particularly in explaining why Malaysia participates and uses the United Nations and other intergovernmental organisations as crucial platform to promote interests. The idealist theory of international relations explains quite clearly that human nature is not all that bad and various mechanisms can be used to promote peaceful co-existence among the community of nations. Problems at systems level can be addressed by utilising many other instruments, not just to promote the interests of the state alone, but the global community at large.

In fact there are many other theoretical platforms and ideas for explaining Malaysia's foreign policy. But to do so it is important to move out of the narrow international relations discipline. This perhaps can greatly help the theoretisation of foreign policy. If one uses a multidisciplinary approach, explanations on policy decisions become even clearer. A combination of rationalism and political philosophy contributes strongly to some of the ethical questions surrounding foreign policy decisions.<sup>5</sup> Here issues such as human rights, just war and other ethical dimensions of foreign policy can be explained as state assumes a greater role as a responsible actor.

The psychological approach has also contributed significantly towards foreign policy analysis. This is particularly useful as scholars deal with the question of perception, images and its impact on inter-relationship among states. Ideas relating to organisational framework and policy outcomes are also vital for explaining policy decisions.<sup>6</sup> Theoretically, it is explained as the "bureaucratic politics" model. Basically, this set of theoretical ideas

look at rivalry within the decision making organisations and how it impinges on foreign policy. It is also argued that administrative departments have their vested interests and develop their own perspectives in deliberating policy. Apparently intra-bureaucratic conflict can become as problematical as inter-state conflict in articulating policy preferences.<sup>7</sup>

As far as Malaysia's foreign policy is concerned the "bureaucratic politics" theory may not be so accurate in explaining the situation and policy construction platform. In Malaysia, the government of the day deals with critical issues at parliamentary level. Once a particular policy is adopted, Ministry of Foreign Affairs, Ministry of Trade and others play a vital role in implementing policy. To say there is intense debate where departments are rivaling one another to push their foreign policy agenda can be a naive way of analysing the local situation. Secondly, it is quite clear that the executive branch, which includes the political elites basically, dominate policy proposal based on national predicaments. Here, it is also not wrong to say that the prime minister has been a "constant" among the variables determining foreign policy. Therefore to apply the bureaucratic politics theory on foreign policy division in the Malaysian context will be less accurate. Nonetheless its usefulness cannot be entirely disregarded.

As the debates on political and foreign policy theories enters the postmodernist turn, some important themes that were not on the earlier agenda of foreign policies analysis are now being explored in an intense manner. The rise of postmodernism explores various themes relating to the questions of identity, sovereignty and national survival. Along with postmodernism another important branch of theory has been gaining momentum. The rise of constructivism as an important dimension of international relations theory cannot be disregarded. For, the role played by constructivism in identity related dimensions of foreign policy warrants significant attention.

In fact, the explanation of identity related questions such as political culture; religion and other value-based component of state policy are crucial indeed. More so when Huntington's theory of clash of civilisation seems to offer some explanation for foreign policy actions of states as we observe conflicts in recent history. The answer for a search in theories explaining identity and value based question of foreign policy behaviors of countries seems to lie at the heart of constructivism. In fact constructivism as a foreign policy theory has been explaining identity related issues.<sup>8</sup>

While realism has failed in linking the domestic dimension of foreign policy, constructivism at least manage to explain deeper ideational and cultural related matters. Here we could see why Malaysia tends to lean towards the Islamic world. Similarly ideas behind Malaysia's inclination towards supporting the developing world and the non-alignment movement (NAM) can also be explained. As an important theory of foreign policy, constructivism looks at the meaning of particular identity in which the

context of Malaysia's foreign policy can be examined. The rise of Islam as a leading component of foreign policy in recent years can be scrutinised using constructivism purely by observing why the formation of such identity is crucial to Malaysia in the global system of nation-states. In addition to that, constructivism also offers an explanation on the formation of national identity of Malaysia especially one that is based on nationalism.

In Europe, critics of constructivism have moved to another level of foreign policy theory. In trying to resolve the question of meaning in identity of state, nation and European integration, they have embarked on what is popularly known as discourse analysis as foreign policy theory. As the culture of debate on foreign policy is intensive in developed countries, discourse analysis theory of foreign policy does offer an in-depth idea of foreign policy construction. This theory focuses purely on discourses. Here it observes the structure of meaning and the logical arguments using open sources and public documents.<sup>9</sup> Discourse analysis focuses heavily on discursive structures in the national political arena. It stretches on what people think on why they do what they do. By analysing the discursive structure one will be able to observe the way in which policy makers argue in order to promote a particular policy. The advantage about of discourse analysis as foreign policy theory is that it has managed to make a significant link between domestic politics and foreign policy analysis.<sup>10</sup> This critical dimension has been neglected by the existing major traditional foreign policy theories.

Many existing theories of foreign policy making have failed to explain domestic discourses, the nature of domestic political contestations and their linkages to the outward orientation of policy formulation. What has appeared so far seems to be the national interest and survival of the state dimension arguments prevalent in traditional international relations and foreign policy theories. The discourse analysis theory of foreign policy has a significant role in development of recent decades of Malaysian foreign policy discourses. In particular, its strength in explaining the way in which Islam influences (in shaping) the foreign policy orientation is undeniable indeed. One interesting aspect that can be regarded as credible on the part of discourse analysis theory in the Malaysian context is that it can reveal the nature of Islamic discourses within Malaysia and its bearing on foreign policy. To be more precise, one such agenda can be identified through the debate on Islamic state.

The idea of an Islamic state has two characteristics. One is the moderate version, which is promoted by the mainstream establishment or the government of the day. The other tends to appear slightly radical which the opposition promotes. Here collision between two different identities is witnessed in the Islamic discourses within Malaysia. This political contestation eventually led the government of the day to be more aggressive in the promotion of the interests of the Islamic world in the international arena leaving no room for the capitalisation of opposition. Therefore, the

role of discourse analysis theory of foreign policy is becoming crucial in the Malaysian context. Perhaps it is not wrong to argue that the role of debate and discourses have dawned with the emergence of the 21st century. In the past, it has been democracy, human rights and the neoliberal economism. In future, Islamic discourses and its surrounding world will become a central theme of Malaysia's foreign policy. Politically, it will be more important than the indispensable economic relations agenda with the rest of the world.

The last in the constellation of foreign policy theories, which can explain policy construction dynamics in Malaysia, is the polyheuristic theory. This particular theory of foreign policy is extremely useful in explaining the Malaysian situation. It is also slightly more comprehensive like the rational choice actor foreign policy theory. "The polyheuristic theory of foreign policy decision making incorporates the conditions surrounding foreign policy decision, as well as the cognitive processes associated with these surroundings".<sup>11</sup> The polyheuristic theory is derived from two disciplines. It combines political science and cognitive psychology. The political science dimension deals with the question of who wins and loses politically as a consequence of decision making. On the contrary cognitive psychology focus especially to the decision-making processes by observing on how decision makers select and rejects option as a result of task complexities, time constraints, uncertainties, risks and other calculations.<sup>12</sup> The theory assumes policy makers are knowledgeable in reasoning as regards to political and policy choice. To some extent it is similar to that of the rational choice actor.

What is interesting on the part of this theoretical model in the context of Malaysian foreign policy is indeed the political dimension of decision-making or the formulation of policy. In fact one of the fundamentals in this theory is that policy makers measures costs and benefits, risks and rewards, gains and losses and success and failures in terms of political ramifications.<sup>13</sup> It is argued that politicians value gains and losses in political terms including the domestic consequences such as challenges to leadership and so on.<sup>14</sup> While more can be dilated on this theory, it is not the interest of this article to do that. In fact, the purpose of this discussion is to purely highlight the strength of certain theories in assessing the Malaysian context.

As we observe the Mahathir administration's foreign policy within the context of the political challenges that he confronted in the 80s and 90s, the relevance of the above discussed political dimension of the polyheuristic decision making theory of foreign policy will be extremely useful as an analytical tool. One could even go further to state that foreign policy has played a central role on the question of political legitimacy under Mahathir administration. On each occasion a brilliant idea had been placed on the trajectory of Mahathir's foreign policy, it bears a fruitful seed in the domestic political scene, by enhancing political legitimacy for his leadership.

The Look East policy of the 80s and the capital and currency control after 1998 crisis are good testimony. These foreign political and economic policies have played vital role on the long survival of Mahathir leadership in highly volatile moments. The former in enhancing his leadership role at initial stages and the latter in consolidating position in the late 90s and for earning the credible international respect including in local political scene.

In a nutshell, this section has explored various theories of foreign policy. Its purpose is not to display theoretical jargons and to generalise the Malaysian foreign policy. But most important of all, its purpose is to harness the contending theories of foreign policy in explaining the Malaysian context, in this way; one could explore, explain, deconstruct and reconstruct Malaysia's foreign policy from the epistemological point of view. Theoretical perspectives of realism, idealism, rationalism, neoliberalism, constructivism, discourse analysis, bureaucratic politics, and polyheuristic decision making seem to have an impact in one way or another in explaining the policy making process in Malaysia. In fact one or two foreign policy theories enable us to have a much broader picture of the foreign policy orientation. It explains why Malaysia looks at a particular region or lean towards a particular norm in its struggle for survival in a globalised social, economic and political environment. It is also an irony for a small country that is so much dependent on the west to take a rather confrontational approach on the global policy that serves the interest of the developed world. Similarly it is unique for Malaysia to speak so loudly for the Islamic cause and yet to maintain a moderate stand on Islam. These positions demands higher theoretical investigation especially in countering the myopic nature of the theoretical process in the west that tend to frame all developing societies in one basket for analytical purpose. Perhaps it is the right time now for discourses in policy analysis to examine the sophistication of foreign policy in advance developing country. How they survive globalisation can be in itself an important beginning of foreign policy inquiry.

### **THE CENTRALITY OF ASEAN AND THE DEVELOPING WORLD**

ASEAN and the developing world played vital role in Malaysia's foreign policy during the Cold War. As the major challenge is now on economic globalisation, both ASEAN and the rest of the developing world serve Malaysia's foreign policy interests as a coalition-building platform. While they are viewed as important emerging markets, Malaysia looks at them as an organising platform for its policies and strategies. Basically, the purpose is to be a balancer.

Heavy reliance on the West for trade and investment has also been phased out in various ways so that Malaysia can look at the region with opportunity. Mahathir's foreign policy towards ASEAN countries has been



lately tuned and conjured by the concept of "prosper-thy-neighbour". Malaysia's foreign and economic policies have been basically influenced by this mindset and strategies. Malaysia has also been regarded as a major player in ASEAN.

The fact that Philippines' President Gloria Macapagal thanked Mahathir for his genuine effort in consolidating peace in Southern Philippines reflects pragmatism in Malaysian foreign policy towards ASEAN. Malaysia played host in ensuring the factions of MNLF and MILF Islamic separatists co-operate with the Philippines' government in finding solution for their problems. Malaysia has also been investing in Southern Philippines in recent years. Bilateral relations with the Philippines are in good shape despite difficulties.

Another major achievement of Malaysia is in managing the long-standing dispute with Singapore over several issues such as water, immigration checkpoints, CLOB, central provident fund and so on. Mahathir proposed for a package deal so that all issues can be discussed and overcome. The visits of Lee Kuan Yew and the subsequent meetings, which follow suit, manage to mitigate all the main aspects of the disputes. What left now is only the details of the agreements that needed to be worked out so that a final agreement can be reached.

In the past, the United States used to be the number one trading partner. In recent years, ASEAN has replaced the US as Malaysia's number one trading partner. In line with that, Malaysia has been more than willing to send delegations to Indonesia, Philippines and Indochina for enhancing investment and trade. Malaysia has also been active in complying towards the ASEAN Free Trade Area initiative. It is also searching ways to overcome the criticism thrown at Kuala Lumpur on the automotive sector and its non-compliance with AFTA rules. In sum, with globalisation being viewed as crucial for growth and development, Malaysia has over the years, enhanced its liberalisation policies at the regional level so that it is in line with GATT and now the WTO process. ASEAN is also an important platform in this direction.

The developing world, which includes ASEAN, Islamic and non-Islamic countries, has been central to Malaysia's foreign policy. The fears of globalisation have been in some ways uniting the developing countries so that they could speak with one voice in facing its challenges. G-15, G-77, NAM, OIC and D-8 are now debating the issues relating to globalisation. Mahathir has become their leading advocate. Malaysia's view is not just considered within ASEAN but also at the higher diplomatic circle of all organisations representing the developing countries. Malaysia is also viewed as a model for the developing world.

Thus, it is much easier for developing countries to cooperate along the prescribed Malaysian foreign policy agenda. More so, when most developing

countries view globalisation with defeat. Such fears include the view that globalisation is irreversible, a new phenomenon and cannot be controlled by developing countries. Fundamental among them is also the fear that the divide between the rich and poorer countries will be growing even greater.

Realising the need for survival and diversification in the global economy, Malaysia focused on enhancing co-operation within the developing world. Mahathir introduced the idea of Smart Partnership and Prosper-Thy-Neighbour concepts so that others in the developing world can emulate as well. In line with it, ideas behind networking, information sharing, creation of economic database for the South and strategies for trading and investments are being considered and practiced by various South-South institutions.

Malaysia's globalisation strategy along this development includes the setting-up of several trade missions and facilities for boosting economic cooperation with developing countries. Malaysia is also promoting similar kind of initiatives for enhancing South-South cooperation through the Langkawi International Dialogue, which promotes Smart Partnership. Malaysia, on its own initiatives, has been moving into Latin America, Africa, the Middle East, Central Asia and other remote regions for promoting trade and investment.

Malaysia uses the above platforms to promote its national interests and also in a positive way help developing countries to come together. In this way, it believes that exchange of ideas; goods and services can be enhanced. Most important of all, the various meetings will help countries to strategise towards coping with globalisation and the challenges emanating from it. Developing countries will also find new ways so that they will not always succumb to ideas promoted by the IMF and other institutions controlled by the West. While trade and investments could be encouraged with the West, Malaysia feels there are different paths for development. Similarly, Malaysia looks at the developing countries as an opportunity for trade and investment. This is one way in which Malaysia practice diversification and employ alternative strategies. Malaysia's total trade with the South countries in 1995 was recorded at RM\$52.7 billion, an increase of 21.6 per cent from the 1994 figure of RM\$43.3 billion.<sup>15</sup>

The above figures include both the ASEAN countries and the rest of the developing economies. Where ASEAN is concerned, Singapore constitutes bulk of the trade figure. The rest of the trade figure with the South includes trade and investment in China, South Asia, Africa and Latin America and in Middle East countries. On the whole, both ASEAN and the rest of developing world serves Malaysia's interest in coping with a globalised economy, and as a platform for building coalition in challenging the western or the developed world's notion of globalisation. To date, Malaysia has become a model for the least developed countries. Malaysia's

large corporations are leading ways in enhancing South-South co-operation in the economic spheres. A great example of success in this dimension is the ability of Malaysian companies to monopolise sizeable infrastructure projects in India. Petronas, for example, has become a global player representing Malaysian version of MNC. Power plants, telecommunications, roads, railways, oil and tourism are areas in which Malaysian corporations are going global. In this way, Malaysia has in a way balanced its priorities and foreign policy goals. It also serves the goals of the developing countries.

### **FOREIGN POLICY TOWARDS THE ISLAMIC WORLD AND GLOBALISATION**

Islam has not only been a central theme in Malaysia's foreign policy but it has an important dimension to its domestic policies.<sup>16</sup> Islam has become the official religion since the independent of Malaya. It had played a crucial role in the politics of Malay Archipelago even prior to the entry of colonial powers from the west. Therefore, to deny Islam a place in Malaysian politics and in its national policies will be unwise or ignorant of the demands of the major sections of its politics.

Having observed the national culture, it is a renowned fact that the present government has done more than enough to promote Islam both in the domestic and external environment. Internationally, Malaysia has been a qualified member of the Organisation of Islam Conference (OIC). It has contributed to that organisation by holding its highest office at one time during the previous leadership. The present leadership had contributed tremendously to an extent Mahathir has been given numerous awards by important Islamic countries like Saudi Arabia, Jordan and Lebanon. Recently, the highest Islamic organisation in United States has also recognised and presented him some sort of an award for his contribution to the global Islamic cause. Malaysia will be also chairing the OIC in October 2003.

During the Mahathir administration, over the last two decades or so, Malaysia has played key roles in promoting the Islamic cause in the international arena. Malaysia has been consistently vigilant, and provided the necessary support to the Palestinian cause. Yasser Arafat himself had visited Malaysia in 1984 and in the mid 90's realising the important role Kuala Lumpur plays at the international platform in fighting for the interests of the underprivileged and the oppressed Islamic societies.

In terms of role, Malaysia has been consistently condemning injustices that have been taking place in Bosnia, Kosovo and Palestine. Malaysia has also participated in peacekeeping operations in Somalia and Bosnia. Other minor assistance has also been given to these regions on the humanitarian ground. Malaysia has contributed US\$12 million in assistance for the reconstruction of Bosnia.<sup>17</sup> The Afghanistan and Iraq are also places where Malaysia provides massive humanitarian assistance. So far

more than RM30 million was provided by the government. Similarly, investments and economic assistance have been pledged for the Southern Philippines. Malaysia had also played a vital role in the negotiation process between Islamic factions from the Philippines.

In the case of the Palestinian issue, Kuala Lumpur has urged the United Nations to act on resolution 425 which stresses on the withdrawal of Israel from the piece of land in Southern Lebanon and the other occupied territories.<sup>18</sup> Other UN resolutions requiring the Israeli withdrawal are often used by the Malaysian leaders in supporting the Palestinian cause. Malaysia has yet to recognise the Israeli state as a legitimate political entity in international arena. Until Israel fulfills the demands of the Palestinian people and the agreements in line with that, Malaysia will not change its foreign policy position. At present, Kuala Lumpur is among the few who have yet to allow its citizens to travel freely to Israel.

Malaysia's support to the Islamic world during the Mahathir administration has in fact increased in a major way for the reason of globalisation. It has increased and improved its bilateral ties with almost all Islamic countries. Like the non-Muslim developing world, the Arabs and other Islamic states look at Malaysia's economic prowess with great admiration. More so when the government could promote the global Islamic solidarity without jeopardising the interests of the non-Muslim communities residing in Malaysia. Malaysia has also looked beyond the Middle East in enhancing Islamic solidarity.

In line with the challenges of globalisation, Malaysia views the Islamic countries as an important platform for market. As a trading nation, Malaysia very often uses the same strategies of smart partnership in promoting its economic interests. What has become more crucial to note in the wake of globalisation is that, Malaysia's tone of promoting cautious steps especially in fulfilling the demands of the global market economy. Since the Asian financial crisis, Malaysia has been using the platform of OIC, Developing 8 and other Islamic meetings for highlighting the dangers of globalisation and the ways to cautiously handle them. Similarly, most Islamic countries are also members of organisations under the movements of developing world. These include the Non-Alignment Movement, G77 and G15.

On the whole, the Islamic world is seen as vital to Malaysia's foreign policy after its immediate ASEAN region. This is because; Malaysia has been able to position both the Islamic cause and the challenges of globalisation as two main common areas in promoting its relations with Islamic countries. On the contrary, Kuala Lumpur only deals with the challenges of globalisation as a major theme with the rest of the developing world. Islam is also

regarded as a way of life and presents an alternative front against the Americanisation, westernisation, or even secularisation. Islam is also seen as an alternative means to address cultural challenges posed by the West.

The debate on competing identity is indeed an important dimension of globalisation in normative terms. Different identities, values, languages and so on are competing for a place in a globalise world. Secularisation seems to be a dominating side at this moment and it has immense power to project itself globally along with democracy. The control of global capital will further enhance its position. However, it is difficult to assert that liberalism will conquer the rest of the world. With globalisation, small group of countries or communities will also have the opportunity to sustain or enhance their identity and position. This explains well the cause of Islamic revivalism, fundamentalism and sometime extremism. Similarly, the emergence of other cult groups is also being witnessed on the global stage.

Edward Said, a renowned scholar in Islam, has recently argued, "Islam and the west are inadequate as banners to follow blindly". More so when "there isn't a single Islam: there are Islams just as there are Americas".<sup>19</sup> This is an interesting perspective for analysis, particularly in understanding the debate on contestation for identity in an era globalisation.

Such challenges are already being faced by Malaysia in trying to moderate the different perspectives and groups that are advocating Islam. In fact in recent years, the debate on Islamic state seems to portray the contest for identity in national politics. The present government and leadership appear to promote the tolerance, liberal and moderate dimension of Islam in asserting the notion of Islamic state. It uses the constitution and Malaysia's standing vis-à-vis other Islamic countries as tools to gauge the extent of Islamic state. Whereas, Parti Islam SeMalaysia (PAS) view the establishment has yet to become an Islamic state because there are many more unfinished agenda. The present leadership does not also accept PAS's interpretation because almost all Islamic countries already recognise Malaysia as an Islamic state.

In this context, where foreign policy is concern, the Islamic world is so crucial for whomever in power to play the right role in meeting domestic demands. As for the present government, this is an important challenge that could be addressed by using the foreign policy front. It also goes well with Islam itself when politics cannot be separated from the religion. Therefore, Islam will remain as a major theme of Malaysia's foreign policy, and globalisation will only enhance it further. In a globalise world the small and weak can become even move powerful depending on the agenda. The terror attacks demonstrate this argument.

## **MALAYSIA'S LOOK EAST POLICY AND A ROLE FOR CHINA**

Visionary leadership is perhaps the most suitable way to explain Mahathir's role in shaping the Malaysian economy in a heavily globalised world. Most important of all, in reengineering the foreign policy orientation which in the past had more tendency for depending on the west. His era witnessed major shifts both at the micro and macro level on national economic policy. Mahathir shouldered an economy that was subjugated by the strong influences of the international market. Stockpiles of Malaysian commodity in the international market had major repercussions then. Mahathir had both the political will and guts to free Malaysia from the clutch of foreign dominance. His policies were not aimed at isolating Malaysia from the global economy but on the contrary, opening-up the national economy further.

While he was expressing his dissatisfaction against the west, Malaysia was taken into a new era. In foreign policy terms, the Look East Policy was introduced. Initially, some kind of Buy British Last initiatives were prompted, however, Malaysia was pragmatic enough to ensure to flow with the West, so that it could enjoy the benefit of globalisation. But the most crucial strategic lessons Malaysia have learnt and introduced to the developing world is on how to balance the West with the East. Malaysia looks at Japan and South Korea not just for investment but also in terms of strategy. Therefore, Malaysia's Look East Policy should also be viewed as a reactionary approach in tactically positioning Malaysia on the alternative paths. The path that can cope with the demands of globalisation by observing the way in which Japan and South Korea emerged. Japan at that time, was viewed as a successful economy without compromising its language and cultural values. This has been an important attraction for Mahathir.

Some analysts have argued that the Look East Policy was merely a reaction to address domestic scenarios confronting Mahathir's leadership. As far as this analysis is concerned, both the domestic and the external factors are both crucial in adopting such drastic policy measures. What appears striking is the alternative path that Malaysia advocated.

Indeed Mahathir was the first Asian leader to go against the West in proposing for an East Asian Economic Grouping. The failure of GATT and the emergence of various trading blocs in other part of the world prompted Mahathir to suggest the institution of EAEG, which ASEAN eventually adapted as the East Asian Economic Caucus (EAEC). While the idea of EAEC was supported by China, it didn't materialise because Japan and South Korea were having some reservations. Nonetheless, EAEC materialised in a different form after the Asian financial crisis. EAEC's main objectives

have now been attained in ASEAN + 3 whereby Japan, South Korea, China and ASEAN countries are having regular dialogue. They have been also working on strategies to overcome currency attack or other kind of financial crisis through swap arrangements. On the whole like the initial Look East foreign policy, EAEC or ASEAN + 3 aims at reducing the dominance of the West in setting globalisation policies that are predatory towards Asians and the interests of the developing world.

The Asian economic crisis has made the East Asian countries including Japan to realise that there is a strong need to work together. It is also crucial for ensuring some form of political and economic cooperation so that the interest of these countries is protected amidst globalisation. Realising such needs ASEAN had joined Japan, South Korea and China in organising dialogues with other regions in promoting the East Asian interests. One such major endeavor is the Asia-Europe Meeting (ASEM) where regional interests are discussed in addressing the challenges of globalisation. East Asia and Europe will surely discuss America's role in globalisation.

Malaysia's Look East Policy has become more relevant in recent years due to important developments taking place in the regional geopolitical environment. The Look East Policy should now be viewed in the context of an emerging East Asian economics largely comprising of China, Taiwan, Hong Kong, South Korea and Japan. While the earlier strategies in Malaysia's foreign policy have been highlighting the success of South Korea and Japan that Kuala Lumpur should emulate, it is also timely to look at an emerging China. In fact, Malaysia was the first in the region to downplay the rhetoric of China threat. Mahathir through various speeches asserted that an emerging China as an opportunity and should not be nurtured into a threat. His assertions are right if one analyses China's foreign policy and military initiatives carefully within the last decade or so. China has not been really threatening the security of smaller countries, except in the case of the Spratlys imbroglio.

For Malaysia, its trading relationship with China is on the increase. Kuala Lumpur has replaced Singapore as China largest trading partners in Southeast Asia. According to the Embassy in Kuala Lumpur, Malaysia trade with China expanded extensively within the last five year. It is also interesting to note that this increase occurred after the 1997 Asian financial crisis. In 1998, trade between the two countries was at US\$4.2 billion. The total trade shot up to US\$14.2 billion in the year 2002.<sup>20</sup> This drastic increase is basically influenced by many factors.

Chief among them is the cultural exchange and tourism promotion programme, which Malaysia embarked onto to woo more visitors from China. The government also organised various trade missions. Visits among

the top leaders of both the countries have increased tremendously in the last decade. This trend has become a permanent feature of the bilateral relations. Leaders normally travel with a large entourage for promoting business. China's entry into the World Trade Organisation (WTO) has also been playing an important role in increasing business ventures. Malaysia is currently the 16th largest foreign investor in China. Between 1984 and 2002 some 2383 Malaysian projects were approved. Its total capital value has been estimated at US\$2.6 billion.<sup>21</sup>

The formation of ASEAN-China Free Trade Area will also enhance the economic relations between the two. Malaysia has so far increased all the necessary measures to improve bilateral relations with China. This is to enable the country to capitalise on a rapidly growing China. It is predicted that China will be the biggest economy of the world by mid-21st century. China's role to shape the global economy and its destiny cannot be underestimated. In fact all western developed countries are already actively seeking business return there.

Aside from expanding the Look East Policy horizontally, Japan for example had expressed its desire to expand programmes under the Look East Policy. One of the main components of policy aside economic cooperation is in the field of education and training. In 1997, the Japanese Ambassador to Malaysia, Issei Nomura expressed the importance of expanding the education and training programme under the Look East Policy to include postgraduate studies. He also suggested the importance of setting up a consortium of Japanese universities in Kuala Lumpur.<sup>22</sup>

Aside from the cultural, scientific, educational and entrepreneurial aspects of cooperation, it is without doubt that the main focus of Look East Policy is to enhance economic cooperation. Most important of all, it is for increasing trade and investment. Japan has been Malaysia's number two trading partner for more than a decade. It is also among the largest contributor of Foreign Direct Investment. Malaysia's overall trade with the Northeast Asian region increased overwhelmingly during the last decade. For example, Malaysia's total trade with the Northeast Asian economies recorded a growth of 28.3 per cent within a year to RM\$52.2 billion in 1995 from RM\$40.7 in the previous year.<sup>23</sup> Malaysia exports manufactured goods, machinery and transport equipment's, food items, tobacco, crude oil, mineral, fuel, animal and vegetable fats, chemical and so on. Malaysia's imports from that region are also almost similar in terms of quantity thus making the trade more vibrant and dynamic. Despite similarity, there are differences in terms of level of production. Malaysia's major industries like that of the automobile can be regarded as the most successful joint venture under this Look East Policy metaphor.

The Look East approach therefore has been visionary and more so when one views it within the context of new East Asian regionalism. The adoption of China is an added advantage for Malaysia.



## THE WEST IN MALAYSIA'S FOREIGN POLICY: ANTAGONISM VERSUS PRAGMATISM

Malaysia has no specifically pronounced policy towards the western world. However, there are events, issues and evidences of consistency in Malaysia's policy towards the western countries, particularly the United States, Europe and Australia. These countries are ranked as among the leading trading partner in recent decade. Malaysia's relations with these countries are composed by both cooperation and contentions. The leaders before Mahathir looked at the West positively. On the contrary Malaysia's foreign policy attitudes towards the western world changed significantly during the Mahathir administration. Occasional hiccups do make diplomatic relations sometimes difficult.

Most analysts would attribute it to Mahathir's idiosyncratic factor. Whether we like it or not, where foreign policy is concerned, Mahathir is a 'constant' in shaping policies and creating the kind of climate which portrays Malaysia. While Mahathir appears confrontational, he has also inculcated pragmatism in foreign policy towards the western world. If one observes very carefully, most of the conflicting positions in Mahathir's policy with the western countries are mainly due to two factors. The first is due to pressures of globalisation where issues are focused around the themes of political economy. Second, the differences in opinion emerge due to normative factors such as the Islam, Asian values or the developing world perspectives.

Mahathir expressed his displeasure with the West by directing a 'Buy British Last' initiative.<sup>24</sup> He was also downgrading the Commonwealth Organisation from the foreign policy priority list mainly due to difference with United Kingdom. Mahathir was unhappy with Britain on issues relating to buying back of foreign companies by Malaysians and also the increase in overseas student fees. The tension with the West made Malaysia to look at other successful East Asian societies for guidance under the 'Look East' policy framework. The West was no longer seen as a model for success and advancement. However, the Buy British Last' directions did not last long. By 1998, Malaysia's discomfort with the West was mainly due to Mahathir's perception that these countries, particularly Britain was not providing the right help for the developing world. On the contrary, there are tendencies for them to undermine the interests of the developing countries who are trying hard to come out of the systemic crisis.

Such perspective of the West is quite prevalent in addressing Malaysia's own problem in facing challenges of the global economy. Mahathir pursues, more or less, similar ideas in all platforms and organisations promoting South-South cooperation. Mahathir and Malaysia's perception in this light is also influenced by a position that derives from the conflicting experience coloured by colonialism. Thus, Malaysia, like many other developing

countries view the western agenda for globalisation with caution. In most instances, it is understandable if Malaysia views the western liberalisation agenda for globalisation with prejudice and as a neo-colonial project. More so, it was capitalism that brought the West to the East. Under neo-liberalism, it is market and capital that seems to push the western agenda towards the rest of the world.

The attacks on Asian currencies led by George Soros is another dimension in which, once again, reflects how Malaysia's perspective of the West is being built. Currency attack has indeed served as a means of new-colonisation and western supremacy. The US and UK's war in Iraq and also in Afghanistan projects western hegemony in global politics and security. In fact, during the immediate aftermath of the 1997 financial crisis, Malaysia's idea on currency and capital control measures was not popular. But, in time both George Soros and the IMF felt that Malaysia is doing the right thing. If one reads all recent IMF and World Bank reports, the idea of controlled financial management and capital control has been accepted as an important norm. Malaysia is the only developing country, in the history of the global economic institutions, proved that their policies could be wrong.

Malaysia's problem with the West can also be scrutinized by assessing the occasional problems in its bilateral relations with Australia. Australia has been Malaysia's 'punching bags' for sometime. The western insistence on human rights, democracy and market economy can be analysed in some of the dispute between Malaysia and Australia. Malaysia, particularly, Dr Mahathir, has been abrupt and outright in exposing the weaknesses in the Australian society and its agenda in the region. It appears as if Australia's interest in the region is more based on profit by moves declaring Canberra as part of Asia. Kuala Lumpur also feels the developing countries should not be pushed around by the developed world.

Malaysia has voiced out on the over-concern of the West on human rights, democracy and trade liberalisation. The present leadership has agreed that economic rights and development should come first before the developing world makes progress on democracy and liberalisation. This has been Malaysia's position for some time. Similarly the government argues that the community rights should be placed above individual rights in debating the human rights agenda. Malaysia has voiced against the US and EU on attempts to link human rights and democracy with development assistance. In fact these are the major issues in which Malaysia often appears confrontational with West. Similarly, Malaysia is not in favour of attempts to link terrorism with Islam. While the above reflects Kuala Lumpur's foreign policy attitudes towards the West, it did not halt Malaysia's cooperation with the West. In term of cooperation, Malaysia realised the importance of being pragmatic in its policy. It has been pragmatic in practising a foreign policy that promotes national interests.

Another important aspect of contention with the West is the role of the United Nations. Malaysia has contributed positively in the United Nations. However, like many other developing countries, it feels that the United Nations needs to be restructured. Malaysia feels that the veto power must be abolished and the members of the Security Council must be increased to reflect the present reality of global politics. Similarly, it strongly supports the idea of enhancing the power of the United Nations General Assembly. In sum, Malaysia's relations with the West will be defined more by the challenges of globalisation in ensuring an equitable world order.

## CONCLUSION

Observing the globalisation trends and its impact on Malaysia requires tremendous effort. Within the context of Malaysia's foreign policy, the following changes are being witnessed if we take a period of two decades. First of all, foreign policy priorities are more focused on trade and economic agendas. Military agendas are crucial but they no longer compose a sizeable portion of most foreign policy speeches. Today, environment, development, free trade and other socio-economic issues are gaining currency in both at the declaratory and action components of Malaysia's foreign policy. Security concepts of Malaysia are also interpreted broadly to comprise the human, political, social, economic, environmental and psychological dimensions. Theoretically, many approaches are required to explain Malaysia's position.

Recent decades indicate that Malaysia's foreign policy is pronounced more often in terms of the global socio-economic and political issues. Perhaps this could be a result of globalisation. As a trading nation and as an active member of the South, Malaysia finds its forte in promoting an equitable and peaceful world order. It is in this direction that Malaysia's foreign policy is currently positioned. New elements such as the influence of civil society remain premature in terms of active participation. If anything, they have been echoing what the state has already discovered. While many areas can be identified in explaining Malaysia's foreign policy, the role of Islam, ASEAN, the developing world and the West are crucial in understanding Malaysia's foreign policy within the context of globalisation. Their critical role is better understood when one takes a long approach in observation and in developing theoretical discourses.

## NOTES

<sup>1</sup> For more details see the chapter on Comparative Foreign Policy in Kegley, C.W and Wittkopf, E, *World Politics: Trends and Transformation*, St. Martin Press, New York, 1993.

<sup>2</sup> *Ibid.*, p.43-44

<sup>3</sup> *Ibid.*, p.45

- <sup>4</sup> Ibid., p. 46
- <sup>5</sup> See Christopher Hill & Margot Light, Foreign Policy Analysis in Margot Light & A.J.R.Groom (eds) *International Relations: A Handbook on Current Theories*(.....),p 156
- <sup>6</sup> Ibid., p.158
- <sup>7</sup> Ibid., p.160
- <sup>8</sup> For a details account on constructivism see Christian Reus-Smith, *Constructivism in Scott Burchill and others, Theories of International Relations*, Palgrave Houndmills, 2001, p.209-230.
- <sup>9</sup> See Ole Waver, *Identity, Communitons and Foreign Policy: Discourse Anlysis As Foreign Policy Theory*, in Lene Hanson and Ole Waver (eds), *European Integration and National Identity*, Routledge, London 2002, p.26.
- <sup>10</sup> Ibid., p.27-28
- <sup>11</sup> Cited in Steve B.Redd, *The Influence of Advisers on Foreign Policy Decision Making*, *Journal of Conflict Resolution*, Vol 43, No.3, June, 2002, p.336.
- <sup>12</sup> Ibid.,p.338
- <sup>13</sup> Ibid.,p.337
- <sup>14</sup> Ibid.
- <sup>15</sup> Bulletin Dagang, MATRADE, Bil. 19/95
- <sup>16</sup> For a detail account on Islam in Malaysia foreign Policy, see Shanti Nair, *Islam in Malaysia Foreign Policy*, Routledge, London, 1997. See also Mohamed Abu Bakar, *Islam in Malaysia Foreign Policy in Mohd Azhari Karim, I.D Howell & G. Okuda (eds), Malaysia Foreign Policy; issues And Perspectives*, Kuala Lumpur: INTAN, 1990.
- <sup>17</sup> New Straits Times, 21 June, 1997
- <sup>18</sup> New Straits Times, 20 June, 1997
- <sup>19</sup> The Sun, 23 September, 2001
- <sup>20</sup> The Star, 19 February, 2003
- <sup>21</sup> New Straits Times, 16 April, 2003
- <sup>22</sup> New Straits Times, 19 May, 1997
- <sup>23</sup> See Bulletin Dagang, MATRADE, Bil 18/95
- <sup>24</sup> See Khoo Boo Teik, *Paradoxes of Mahathirism*, Oxford University Press, Kuala Lumpur, 1995,p 55-56.

# THE CHINA-ASEAN FREE TRADE AREA: A MALAYSIAN PERSPECTIVE

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## INTRODUCTION

China has been growing rapidly as an economic power and concomitant with this growth there has been a change in the posturing that China has adopted in the regional and international global arena. Perhaps the most significant event in recent times has been China's accession into the World Trade Organization (WTO) in 2001. This move in itself suggests that China is ready to integrate itself more completely within the global economy and intends to play a more active role in international trade. Viewed differently, the entry is clear evidence of acceptance of China's significant contribution to the global economy that is only formalised by the accession.

The China-ASEAN initiative to embark on a Free Trade Area (FTA) marks a further advance, albeit at a regional level, that is indicative of China's intentions to play a greater economic role at the regional level. Logically, there are two approaches that China can take in terms of its economic relations within the ASEAN region. One is to adopt a strategy that is unabashedly competitive. The other is to adopt a role that is based on cooperation, not on confrontation or rivalry. The China-ASEAN FTA initiative seems to indicate that China wishes to adopt the latter strategy in its relations with the region's members.

As far as Malaysia is concerned its relations with China are complex and any analysis of the China-ASEAN FTA must recognise the undercurrents that influence the relations. Nevertheless, it must be admitted that there

are many positive features that mark this relationship. Firstly, China and Malaysia share extensive common interests that arise due to historical factors, shared cultural backgrounds (keeping in mind that Malaysia has a fair share of ethnic Chinese) and, most importantly, by virtue of both countries being developing countries. Secondly, as far as political objectives are concerned, China and Malaysia, broadly speaking, have an interest in preserving peace and in remaining non-aligned. The recent issue of the threat of an attack on Iraq by the United States is one such example. Although the rhetoric that has been employed has differed, one can safely say that both countries question the wisdom of such an attack. The history of such shared political views goes back to China's support for the Non-Aligned Movement (NAM), and Malaysia's continued interest in maintaining the integrity of NAM as a forum for developing countries. Thirdly, within the realm of economic relations both Malaysia and China share many positive features. Both countries attach importance to economic cooperation and are equally committed to the prosperity of both nations within the context of cooperation. A prime example of this position surfaced in respect to China's entry into the WTO, when the political leadership of both countries chose to view the event as promising more economic opportunities for both countries on the basis of developing complementarities.

Clearly, the issue of the China-ASEAN FTA must be situated within the context of several dimensions. Perhaps the most important of these would be the rapid growth of the Chinese economy. A related phenomenon would be the post-WTO entry phase of China, which has an influential voice in international economic fora, especially the WTO. Thirdly, one has to take into account the changing dynamics of nations within East Asia vis-à-vis their effect on ASEAN. In view of these considerations, the following section will examine some aspects of China's emergence as an economic power. The third section will discuss the impact of China's rapid development on the Malaysian economy. This will be followed by an analysis of the implications of the China-ASEAN FTA. The fourth section will deal with issues related to regional integration in East Asia, with special emphasis on the role of Japan. The fifth section will offer some concluding remarks.

## **CHINA'S EMERGENCE AS AN ECONOMIC POWER**

Many scholars have emerged with very optimistic scenarios of China's position in the global economic arena. These studies share the common assumptions of low production costs and productive labour resources as holding the key to China's anticipated success. These accounts perceive a winning combination of features. In addition to cheap and disciplined labour, if there exist good management practices, sound financial institutions and instruments, superior technology, and the participation of foreign investment, then there is little to stop the country from progressing rapidly.

On the basis of such optimistic perceptions, and barring any obstacles, one can expect China's economy to grow beyond that of even the US. It is generally held that China will become the largest economy in the world by the first half of the 21st century. Madison, for instance, is of the opinion that China would reach the same level of GDP as that of the US by 2015.<sup>1</sup> He expects China to account for 17 per cent of the world's GDP by that time. Although he concedes that it will still not be as wealthy as the US, he reiterates that its influence in economic and political terms would have grown to be massive.

It has been pointed out that China's production of agricultural commodities already makes it an important global supplier.<sup>2</sup> By 1998, China accounted for about 22 per cent of cereals and 25 per cent of the world output in rapeseed, cotton lint and meat production. It had contributed more than 33 per cent of world production in tobacco leaves and groundnuts (in shell) and 40 per cent of fisheries by that time. Neither does China lag behind in the production of industrial products. In 1997 China was producing about 16 per cent of the world's production of crude steel, 34 per cent of world production in cement, and 29 per cent of the global coal output. More than a quarter of the world's production of television sets came from China in the same time period.

Agarwala compares the possible emergence of China as an economic power with that of the United States.<sup>3</sup> He notes that the emergence of the United States as the largest economy in the world did "immense good not only for its own people, but also for the world".<sup>4</sup> In the same manner, he believes that China's growth will help reverse the declining trend in commodity prices. He argues that this will boost the position of the producers of primary commodities in the world. Similarly, he contends that developing countries could gain from China's anticipated growth because China could become a source of new investment. Finally, the developed countries would find more opportunities for investment in China. They would also be able to export technologically sophisticated goods to China. The growing market in China, and the growing development of its economy, would necessitate a modern services sector. This is another area that will present many opportunities for developed economies.

The United States has a large vested interest in China's economic growth.<sup>5</sup> China has been a big market for US goods and services in the 1990s. The WTO conditions, which demand that China liberalise its markets, will mean that the US will have growing access to its markets. More immediately, this means that the telecommunications, distribution and financial industries in the US will benefit from China's accession to the WTO. The automobile and agricultural commodities markets in the US will also have access to markets in China.

The flip side of the situation is that China's industries will have more access to markets in the US as well as in other global markets. Evidence

of this already available from the growth of the electrical and electronics exports from China. China is now among the world's top producers in televisions, washing machines, air conditioners and photocopiers. The photocopiers produced in China account for half of the global production. Similarly, China contributes to 29 per cent of the world's output in televisions and washing machines; and 32 per cent of the global output in air conditioners. It appears that China's automotive industry is also growing very fast. Japanese automobile manufacturers are locating their plants in China. One such example is Toyota, which is assembling 30,000 cars in Shanghai. China is scheduled to enter into a bilateral agreement with the US on the automobile industry in 2006. This would further spur the growth of the automotive industry in China.

As China moves in the direction of integration within the global economy, and propels itself towards emerging as an economic power, the immediate outcomes seem favourable. Prior to China's accession into the WTO it was claimed that China was, in essence, a 'closed' economy that was only interested in promoting its own exports while maintaining elements of a protectionist policy. Even before its entry into the WTO this complaint was dismissed.<sup>6</sup> The foundation for the criticism that China was a 'closed' economy was based on the perception that China was keen to promote its exports while maintaining its protectionist policies. The WTO conditionalities will see the gradual erosion of China's protectionism. However, even before its entry into the WTO, China's barriers to the import of goods had been significantly declining. In addition, China had become more open to FDI than any other country in East Asia, even prior to its WTO accession; and there has been a rapid growth in the sales of US goods to China, a phenomenon that continues.

Further, China's integration will help keep prices of many commodities low in the US, specifically of those labour-intensive goods that are produced, or can be produced, in China. It has been argued that US trade with China, and the increasing scope for bilateral trade in the years to come will be a source of growth for the US. Lardy notes that China was the most rapidly growing foreign market for the US in the 1990s.<sup>7</sup> He adds that trade expansion was "an important source of the record rates of growth of output and employment in the 1990s", and implies that in some measure the robust trade that US enjoyed with China has contributed to the growth of the US economy.<sup>8</sup> If this is true for the US, then the logic of the situation can be applied to other countries. Indeed, it is possible for developing countries to also establish their niche vis-à-vis China, and to boost their bilateral trade with China. There is a lesson that Malaysia can learn from the US experience in this respect, a matter that will be taken up in the next section.

At a broader level, China's emergence as an economic power is likely to influence its relationship with other nations aside from the US. It is useful to speculate how China's increasing dominance will influence other



countries. Taiwan, for instance, is one of the countries that will change with China's economic growth.<sup>9</sup> Economic and trade links between China and Taiwan have been on the rise since the late 1980s. In the 1990s Taiwanese corporations were locating their operations in Mainland China to a larger extent. By that time at least 40 per cent of Taiwanese FDI was in China; and this was before China's entry into the WTO. By 1999, China was already almost as important as an export for Taiwan as the US, since almost 25 per cent of Taiwan's exports went to China.

It is thought that the increased bilateral trade between Taiwan and China, as well as the increased allocation of Taiwanese FDI in China, may result in a peaceful resolution of political tensions between both countries.<sup>10</sup> This is based on the assumption that the mutually beneficial economic relationship and economic interdependence between both nations, will forge closer economic cooperation. This will encourage a convergence of forces that emphasise trust and cooperation. At the same time, such a situation will discourage any attempt to induce military or political instability since it will be to the detriment of both countries. It is argued that the interplay of these forces will contribute to better relations between Taiwan and China.

India provides another instance of how China's emergence can influence another country's perceptions and economic actions. Three pivotal issues in China are catalysing change in India. First, the relatively low cost of labour in China, and the passive trade unions. Second, the government in China is receptive to the needs of foreign investors, and is less bureaucratic than India. Third, infrastructure facilities in China are much better developed than in India, and the cost of utilities is also much lower. The favourable characteristics of labour, an investor-friendly government and bureaucracy, plus well-developed and relatively inexpensive infrastructure facilities have made China attractive to Indian businesses. The outcome of this combination of factors has led to a relocation of Indian investment out of India into China.

Some of the industries in India that have found it profitable to base their production in China include the pharmaceutical, leather, electrical, and steel industries. The Chinese government has been particularly receptive to Indian software companies. The Shanghai Pudong Software Park is reported to be keen on attracting Indian investment. Software training companies have opened centres in China, and have established partnerships with major universities in China. It is not surprising then, that although bilateral trade between the two countries was marked at US\$1.8 billion in 1998, it doubled in 2001. It is expected that this figure will rise to US\$10 billion by 2005.<sup>11</sup>

As much as there are positive consequences that India enjoys due to China's rise to power, the negative consequences are no less significant. The average factory wages in India are 280 per cent lower than corresponding

rates in China. Vinhorn and Kripalani estimate the average factory wages to be US\$87.50 per month in China against US\$31.25 per month in India.<sup>12</sup> Yet, the lower wage rate does not serve to attract investment, in part because of the highly unionised labour environment and rigid labour laws. Other problems abound. The supply of electricity is unstable, and India's transportation system is inefficient. The outflow of investment from India, for all these reasons, will put pressure on the Indian government to speed up its economic reforms.

The reforms that India has to undertake must include opening up special economic zones, introducing greater flexibility to the labour market, and liberalising sectors such as telecommunications and agriculture. Reforms in these areas are worthy of being encouraged, and will encourage the growth of the Indian economy. The uneasy short-term part of China's rise to economic power is the displacement it would cause in many industries in India, as well as the destabilising effect on the labour market in the near-term. The location of Indian industries in China could result in the closing down of plants in India, or in reduced opportunities for employment in India. At the very least, developments in China will rob the Indian labour force of its edge to negotiate higher wages and better terms and conditions. Trade unions will be compelled to reorient themselves to the demands of the market.

It is obvious that China is a fast growing economy that is quickly emerging as a global economic power. Optimistic accounts foresee a China that will be a player in the international arena alongside the United States. Parallel with these developments it is expected that China will impact upon other nations in the region. We have adumbrated upon the influence that China could have upon countries India and Taiwan. It logically follows that China's weight will be felt upon ASEAN, and by extension upon Malaysia. There is little doubt that China, due to its rapid growth and accession into the WTO, will have consequences for Malaysia. The China-ASEAN FTA is a special case of the multifarious developments that demand an examination from the Malaysian perspective.

## **IMPACT OF CHINA'S DEVELOPMENT ON MALAYSIA**

### **Trade Pattern**

The volume of gross exports from Malaysia to China has been increasing tremendously from 1990 to 2000. In 1990 gross exports to China were valued at RM1.68 billion. It almost doubled in 1993 (RM3.09 billion). In 2000, Malaysia's gross exports to China amounted to RM11.51 billion. The performance of Malaysia's gross imports from China, in absolute terms, has been equally remarkable. In 1990, gross imports were worth RM1.51 billion, and they increased in value to RM12.31 billion in 2000.

Gross imports grew by 815 per cent over the ten-year period (1990-2000), and gross exports grew by 687 per cent over the same span of time.

Gross exports to China as a percentage of total gross exports have not been substantial. This figure has been as low as 1.9 per cent in 1991 and 1992. At its best it has been 3.3 per cent in 1994. Since 1998, the figure has been about 2.7 per cent. Just as China is not a significant destination for exports, China does not stand out as a major source of imports. Gross imports as a percentage of total gross imports were 1.9 per cent in 1990. Since 1998, the figure has been about 3.3 per cent.

There has been a slow increase in imports from China, but it is still not substantial. Consequently, the trade balance between Malaysia and China has been in Malaysia's favour in these years. The trade balance was in China's favour in 1991, 1992, 1997 and 2000. In 1997 and 2000, gross imports exceeded gross exports, leading to a negative trade balance of RM997 million and RM804 million, respectively.

The major products exported to China between 1998 to 2000, were electrical machinery and appliances; vegetable oils and fats; office machines and data processing equipment; cork and wood, and their manufactures; telecommunications and sound equipment; natural and manufactured gas; and petroleum, petroleum products and related materials. The first four items of the afore-mentioned list have consistently been significant export products to China.

Two product categories that have been important import products from China (from 1998 to 2000) have been electrical machinery, apparatus and appliances and telecommunications and sound apparatus and equipment. Cereals and cereal preparations have gained in importance as imports since 1997. Less important product categories include vegetables and fruits, and power generating machinery and equipment.

The ranking in importance of Malaysia's exports to China seems to closely reflect of the ranking in importance of Malaysia's total exports. Electrical machinery and parts are the most important export products to China, and they are also Malaysia's most important exports. Office machines and automatic data processing equipment are important exports to China, as they are when total exports are considered. The same can be said for agricultural products and other resource-based products, as they figure prominently in Malaysia's exports to China.

Manufactured goods relating to the electrical and electronics industry, and office and other machines form a large portion of Malaysia's total imports. However, Malaysia's imports from China, aside from electrical machinery and appliances; telecommunications equipment and office machines, includes a large portion of textiles and agricultural products.

## **Changing Patterns of Demand**

With China's rapid growth and its entry into the WTO, the pattern of exports to and the imports from China will change. Electrical machinery and related products have been a major export category to China. This category of products does not demand high technology. Rather its technology requirements are low, and a high level of labour is employed in the production of these products. The higher competitiveness of China in the area of labour will see a movement of foreign producers in this sector to China; it may also be cheaper for Malaysia to import these commodities from China. The net effect will be a reduction in the export of electrical machinery, apparatus and appliances to China.

Malaysia has a competitive advantage in natural resource-based goods such as rubber products, cork and wood products.<sup>13</sup> China, however, is better equipped in sectors that demand labour-intensive production, which is characteristic of these products. Yet, because of the easy availability of raw material relating to rubber, cork and wood products in Malaysia, it is unlikely that China would want to compete in these areas. It can therefore be expected that the export of these commodities will increase in the years to come. Another category that is likely to see a bigger increase in the years to come is vegetable oils and fats. Palm oil being cheaper than oleo chemicals or soya oil, it will continue to be preferred by China. The increased demand in palm oil from China will also give Malaysia a margin of leverage over India, which, for long, has been the most important source of demand for the product.

On the import side, we can expect that electrical machinery and appliances will continue to be a major category of imports. Since it is anticipated that with the entry into the WTO China will seek to expand its manufacturing sector, we can expect that exports of products from this sector will increase, and this will include the export of electrical machinery. The import of textile yarn, fabrics and related products will figure more prominently than in previous years. This is because subsequent to its WTO entry, China's competitiveness in textiles and clothing will be improved due to the elimination of the Multi-fibre Agreement (MFA) quota. It has been estimated that this could lead to a 64 per cent increase in the export of textiles, whereas apparel exports would increase by more than 200 per cent.

In line with simulations, which project declines in output in the Chinese agricultural sector, we can expect imports of agriculture-based products from China to decrease.<sup>14</sup> It has been estimated that China's imports of rice, wheat, other grain and non-grain crops as well as grain mill and vegetable oil will decline in terms of output and employment. The percentage increase in imports is expected to far exceed the percentage increase in exports, implying that there will be a net increase in imports over exports for these products. Unfortunately, Malaysia does not have a competitive

edge in many of these products. Malaysia will, thus, not be able to take advantage of this major aspect of change in the Chinese economy.

## **THE CHINA-ASEAN FTA AND ITS IMPLICATIONS**

### **China-ASEAN Relations**

The seeds of China-ASEAN relations, in an informal sense, have their roots in the 24th ASEAN Ministerial Meeting in 1991, which China's Foreign Minister Qian Qichen attended at the invitation of the Malaysian government. This was followed by China's participation in the 25th meeting in 1992 as the guest of the ASEAN Standing Committee. In 1994 China-ASEAN relations were formalised with the exchange of letters between the Secretary-General of ASEAN and China's Vice Premier and Foreign Minister Qian. China's keen interest in developing its relationship with ASEAN can be gauged even at that time from the joint committees that China initiated. One committee was on scientific and technological cooperation and the other on economic and trade cooperation.

ASEAN accorded full dialogue status to China at the 29th ministerial meeting in Jakarta in 1996. China took the move seriously, and subsequently agreed to the setting up of the ASEAN-China Cooperation Fund. China contributed US\$5 million to the ASEAN-China Cooperation Fund. There was consensus that the cooperative arrangement should focus on agriculture, information technology, transport links, education and human resources development. China's keen interest in cooperating with and participating in the economic development of ASEAN saw expression in its willingness to establish an Expert Group under the ASEAN-China Joint Cooperation Committee for the purposes of studying trade and economic cooperation between ASEAN and China. A specific item on the agenda of the study was to examine the implications of China's entry into the WTO. Another issue that was to be investigated was the possibility of engaging in free-trade relations between ASEAN and China.

There has also been cooperation on political and security issues. ASEAN has valued China's support in forums such as NAM and the Group of 77. The ASEAN-China Senior Officials Political Consultation convened its seventh meeting in Hainan in June, 2001. The underlying political philosophy that guides relations between China and ASEAN is the objective of preventing conflict and promoting peace in the region. ASEAN and China have also been known to work towards developing a code of conduct in the South China Sea.

It is obvious that China has planned a strategy that would serve the purposes of penetrating into the region on a cooperative basis. This cooperative involvement in ASEAN is clearly one that is multi-dimensional in so far as it covers all significant aspects of the region, ranging as it does from

technology to economic cooperation to human resource development and information technology.<sup>15</sup> This wide-ranging involvement in the region offers a balanced strategy on ASEAN-China economic relations. This view is based on the understanding that although China will doubtlessly be a competitor to ASEAN in its post-accession era, it will also be a cooperative partner. The competitive element posed by China, as it emerges as a larger economic giant in this part of the world, will be balanced by its intention to work with the member states of ASEAN in areas of mutual benefit. It is in the context of stressing cooperation and complementarities that one can perceive the China-ASEAN FTA.<sup>16</sup> The events leading to this proposal indicate that this offer is part of a larger strategy to participate in the economic development of the region that has been conceived well in advance and towards which China has been advancing gradually.

### **Framework for the China-ASEAN FTA**

It is necessary to bear in mind that the plan of forming an ASEAN FTA (AFTA) precedes the China-ASEAN FTA. Consequently, there arises the question of sequencing or handling the overlap between the two FTAs. Following the timetable of the AFTA the older members of the ASEAN (i.e. Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) brought the tariff rates of many of their products down to 0-5 per cent. The newer member states (i.e. Cambodia, Laos, Myanmar and Vietnam) are expected to bring down their tariff rates in 2006. Further, it is planned that the old ASEAN member states will eliminate all tariffs and remove quantitative restrictions and non-tariff barriers in 2010. The newer member states will achieve similar goals in 2015. Although it was initially suggested by Premier Zhu Rongyi at the ASEAN-China Summit in 2001 that the China-ASEAN FTA be created within eight years, further negotiations resulted in the decision to set a ten-year time frame.

The China-ASEAN FTA, under the recommendations of the ASEAN-China Expert Group on Economic Cooperation, is expected to subscribe to the following five principle areas of mutual interest:

1. trade and investment facilitation
2. trade in services
3. capacity building and technical assistance
4. promotion measures
5. institutional measures.

In the matter of trade and investment facilitation tariff rates are an important issue. It has been suggested that the ASEAN states' common effective preferential tariff (CEPT) scheme be extended to China. In

reciprocity, China has proposed that it will reduce its tariff rates on Southeast Asian products and consider preferential tariff treatment for Cambodia, Laos and Myanmar, the newer ASEAN member states. In other words, China will accept ASEAN's CEPT scheme and provide product lists that are consistent with it. This arrangement, where China accepts the reduction of tariff rates that are in line with AFTA's provisions, is acceptable to Malaysia. A further element of the China-ASEAN framework, which will also work to the mutual benefit of Malaysia and China, is the removal of non-tariff barriers such as licensing requirements and quantitative restrictions. The removal of tariff and non-tariff barriers will jointly facilitate a free trading environment that will enable China to take advantage of opportunities in Malaysia, and equally, encourage Malaysian firms to locate themselves in China without the restrictive influence of any form of protectionism.

Other elements in the China-ASEAN FTA framework that would be to Malaysia's advantage would include the liberalisation of trading and distribution rights in the importation of products and the simplification of customs procedures. Aside from the simplification of customs procedures it would also be useful to arrange for a convergence in procedures. If China and Malaysia were to adopt the same customs procedures, it would facilitate trade in goods for firms in both countries. At the level of businesses, it would be of great help for the business communities in China and Malaysia, if the framework avoided double taxation agreements and eased visa arrangements that would otherwise inconvenience businessmen.

Attempts should be made within the China-ASEAN FTA framework to promote trade in services. From the Malaysian point of view the services sector has been seen as an engine of economic growth. Malaysia has much experience in sectors such as tourism, education and construction. It also has a long established tradition of exposure to legal and accounting practices that are based on international standards. Needless to say Malaysia's expertise in transportation is well recognised. In view of this record, both countries can mutually benefit from trade in services. A step towards achieving this goal would be to establish institutions that would promote the exchange of information on opportunities that would be to the advantage of both countries. At a more general and wider level, the exchange of information should encompass standards, laws, and regulations. A higher level of transparency on these issues would facilitate trade in goods, services and also encourage cross-border investments.

The position of the newer members of ASEAN is a matter of interest to China and Malaysia. In order to integrate these countries within the regional economy it is necessary to assist them in their development. For this to be possible, capacity building and technical assistance must be extended to countries like Cambodia, Myanmar and Laos. By improving the capacity of these countries not only will their respective states of development be enhanced, but they will then also be better able to do

business with Malaysia and other ASEAN nations. This process will therefore benefit the China-ASEAN FTA, and thus also benefit the gains that China can make by trading with these countries. To strengthen the capacities of the newer member states it is necessary to extend special consideration to those states that are non-WTO members. The purpose of extending such assistance is to help prepare them for eventual entry into the WTO. It must be remembered that Malaysia played a special role in fostering Myanmar's transition towards what can be seen as its political liberalisation. It is for this purpose that promotion measures must be accommodated within the China-ASEAN FTA framework. These measures will, of course, fall within the larger ambit of creating institutional measures that are meant to improve cooperation within ASEAN and to strengthen linkages with China. In particular, the mechanics of cooperation between ASEAN member states and with China must be improved. For this to be done appropriate institutions have to be developed to promote intra-ASEAN trade and intra-ASEAN cooperation as well as to facilitate trade and cooperation between the ASEAN and China. Malaysia can play an active role in facilitating intra-ASEAN economic bonding and this will act as an appropriate foundation for linkages with China.

A feature of the suggested framework that deserves special mention is the so-called "early harvest." The early harvest refers to the liberalisation of tariffs for priority sectors that would create immediate benefits to ASEAN and China. As part of the early harvest package, it has been suggested that measures be introduced to enhance market access opportunities for specific products or services of interest to ASEAN and China.<sup>17</sup> Several sectors have been earmarked within this scheme; and they include:

1. agricultural and tropical products,
2. textiles and clothing,
3. machinery and electronic products,
4. footwear,
5. oils and fats,
6. foodstuff,
7. forestry and aquaculture products, and
8. energy.

It has been added that the list of products and services will be determined through the process of mutual agreement.

There are several products that will be of special interest to Malaysia. Within the agriculture sector, it is perhaps palm oil that comes to mind immediately as being of interest to Malaysia. Although there are reports



that China is concerned that the influx of crude palm oil is likely to have a dampening effect on its edible oil market, from Malaysia's perspective the reaction is quite the opposite. As it stands China is Malaysia's number one export destination for palm oil. Any market access measures easing the inflow of palm oil into China will be welcome for Malaysia. Other products that will open opportunities for Malaysian businesses would be those relating to office equipment, electronic products and forestry products. Malaysia will stand to gain if the markets in China are liberalised for the entry of Malaysian produce in these products. As such, if the early harvest includes the specified products, they will generate favourable outcomes for Malaysian companies.

### **Implications for Malaysia**

It was not as if the idea of the China-ASEAN FTA was accepted readily and without question by Malaysia. At the Eight Summit of ASEAN when Premier Zhu proposed the notion of the China-ASEAN FTA, some of the leaders of ASEAN voiced their reservations. The Malaysian Prime Minister Mahathir Mohamad pointed out that due cognisance had to be made of the varying stages of development. He emphasised the need for greater flexibility and stressed that it was essential to afford a degree of protectionism for products and sectors that were not yet competitive. Mahathir also alerted the Summit to the threat of relocation of industries from Malaysia to China due to the lower costs of labour and production in China. He also added that the offer of a huge market was a pull factor that instigated the relocation of industries.

Objections were raised by Singapore's Goh Chok Tong and President Arroyo, too.<sup>18</sup> However, Premier Goh Chok Tong expressed reservations, but did not fail to add his thoughts on the appropriateness of the FTA. He mentioned that a viable and robust ASEAN had to be the precursor to the China-ASEAN FTA. Premier Goh argued that to devote attention to the China-ASEAN FTA before a cohesive ASEAN was realised would run the risk of having ASEAN overwhelmed by China. China and ASEAN would, then, not be able to negotiate as equal partners. Goh's objection to the notion of the China-ASEAN FTA was blunted because he expressed the opinion that the FTA would benefit ASEAN more than it would China. He made the claim that ASEAN would eventually be able to match China's competitiveness and that the FTA would offer an opportunity for foreign investors to spread their investments in ASEAN instead of locating them exclusively in China.

Premier Zhu capitalised on Goh's line of argument and added that presently the balance of trade is in ASEAN's favour. He pointed out that in 2002 ASEAN enjoyed a trade surplus of US\$12 billion over China. This is in contrast to the trade surpluses that China had over its trade partners in the developed world, particularly the US and Europe. Zhu marshalled

another point to support his argument by drawing attention to the fact that the US attracts about US\$250 billion in FDI per year. He claimed that the China-ASEAN FTA would be able to divert some of this FDI. Perhaps he clinched his proposal by acknowledging that he would be sensitive to the reservations raised by the Philippines and Malaysia. This gained the support of many ASEAN member states. Malaysia was, indeed, conscious of the implications of the China-ASEAN FTA and the manner in which it could negatively impact upon Malaysia; but China scored in its efforts at lobbying for support. It also reacted sympathetically to the reservations that were expressed, and by doing so gained the support it needed.

One reason for worry arises from the argument that the China-ASEAN FTA would result in foreign direct investment (FDI) shifting from Malaysia to China. The same argument was brought out by scholars who thought that China's accession into the WTO would have the same effect. In response to this line of thinking it must be mentioned that this argument is posited on two assumptions. Firstly, it is thought that China's low labour costs will act as an attractor. Secondly, entry into the WTO is believed to provide market access for China's products in the United States. Both assumptions are mistaken in so far as low labour costs are only a part of the story behind production. In addition to labour, technology and the effects of path-dependence are important factors to the production process. Indeed, for industries that solely depend on low labour costs, China is likely to be a more attractive location. But in industries where the level of technology matters, and where a host of support industries and subcontracting activities have grown, relocation is not a rational decision. Thus, for those companies in the electrical and electronics industry in Malaysia that have a high level of technology and which have the support of local subcontracting activities, there is no incentive to relocate investment to China.

Much the same arguments can be used to defend the thesis that the China-ASEAN FTA will not, by itself, lead to the relocation of investment to China. In fact, the China-ASEAN FTA will probably encourage location of investment in Malaysia since the FTA will create an economic region with a population of 1.7 billion people. The combined GDP will amount to about US\$2 billion and trade will amount to about US\$1.2 billion. With such a huge market available in ASEAN, the FTA will encourage foreign investors to diversify their portfolio of investments. Rather than investing exclusively in China, foreign investors will attempt to reduce their risks and to locate their production closer to the ASEAN region by producing in Malaysia. The integration of the region with China and the liberalisation of the removal of tariff and non-tariff barriers within this FTA will attract investment. Of course, this will imply that those industries in which Malaysia has a comparative advantage over China will benefit.

Not only will foreign FDIs be encouraged to locate in Malaysia, but companies from China will also find it to their advantage to be based here.

There are several reasons why this is conceivable. First, China will want to take advantage of the industries in which Malaysia has a higher comparative advantage. As mentioned earlier, this includes timber, tropical commodities, tropical foods, fish, mineral resources, palm oil, and oil and gas. In addition, the financial services sector is also likely to benefit. This includes stockbroking, banking and insurance. Second, China will want to maintain an economic presence in this region for the production of those goods where the cost of labour is not a significant proportion of total production costs. This will be because it wants to take advantage of proximity to resources; to gain from the transfer of technology; and to benefit (or learn) from Malaysia in those areas where it has not developed its institutional capabilities. Third, China will want to set up joint ventures with Malaysian companies so as to penetrate the Malaysian market.

The China-ASEAN FTA will also have a positive influence on Malaysia's negotiating position in the WTO. Malaysia and China are in broad agreement with WTO's main objectives. The principle that an open economy promotes trade and investment is acceptable to Malaysia and China. Both countries accept that barriers to trade (whether they be in tariff or non-tariff form) are detrimental to encouraging trade. While they are concurrence on the goals and objectives of the WTO, both countries differ from the developed countries on the modalities and time frame that must be set for various issues. Both countries, again, feel that the stage of development of developing countries must be taken into account in negotiations. As such, Malaysia can expect to receive China's support on a variety of issues.

Although Malaysia and China are in agreement on many issues at international fora, it would be realistic to expect Malaysia to be cautious about China's political agenda within the region. Unlike Japan, China has political ambitions. It is a military power and has nuclear capabilities. Japan's interest in the region was purely commercial and economic. China, on the other hand, has taken a tough position against the US on many matters. This, in itself, is not cause for concern. What is more reason for concern is the possibility that China may see itself as a countervailing power against the US in the years to come. Of course, this raises the question of how the US will manage such a scenario.<sup>19</sup> Within the matrix of such a development in geopolitics, it is likely that Malaysia may be caught within the web of China's domination. However, this is a scenario that will not actualise itself in the near future.

## REGIONAL INTEGRATION IN EAST ASIA

As it stands the China-ASEAN FTA holds to possibility of disadvantaging the other major players in the East Asian region. The China-ASEAN FTA does not actively engage Japan, Taiwan and Korea.<sup>20</sup> Taiwan poses a special problem because any initiative that is forwarded by China will exclude Taiwan from its calculus. Taiwan is presently an active economic

participant in the economic activity of ASEAN. The trade volume between Taiwan and the major member states of ASEAN (i.e. Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) reached close to US\$38 billion. Investment from Taiwan to the same states in 2000 totalled close to US\$1.3 billion. It is hard to see how Taiwan can function within any FTA where China is a partner. It appears that Taiwan will have to initiate FTAs on its own accord.

Japan has, historically, had a great interest in the region. There have been suggestions that the China-ASEAN FTA be modelled after Japan's agreement with Singapore. However, China's FTA with the region cannot be on the same model as Japan's FTA with Singapore. Singapore does not have any agricultural produce and it is at a different stage of development than Malaysia. The natural resources that Malaysia has at its disposal are not available to Singapore. Neither does Singapore have much access to land. Given these differences one cannot expect the Japan-Singapore FTA to be a model for the China-ASEAN FTA. Nevertheless, the initiative for the FTA shows Japan's continued interest in the region.

In order to pursue its continued interests in the region, and as a counter-offer, the Japanese Prime Minister Junichiro Koizumi visited the Philippines, Malaysia, Thailand, Indonesia and Singapore. Koizumi's offer was to devise a broader free trade zone that would cover ASEAN-10, Japan, China, Korea, Australia and New Zealand. He further waived the requirement for any time frame for concluding the proposed FTA. Koizumi's strategy was to devise an FTA that would supersede that of China's by being wider in scope than China's and which would offer market access opportunities that were of a wider range and deeper. The reservation to this proposal from Malaysia arises mainly due to the inclusion of New Zealand and Australia as members. The other point of difference arises from the Japan-Singapore FTA, which, it is feared will dilute the AFTA arrangement.

There is a clear need for Japan to take a more aggressive approach in providing the leadership for economic integration. This is necessary for two reasons. Japan's failure to do so will result in Japan losing its leadership over the region. This will hamper Japan's development in the long run. Second, Japan's failure to take the lead will result in China's sole dominance over the region. Third, if Japan were to take a more active role in the regional integration of the region, ASEAN will be able to gain from a wider array of opportunities. There are gains both to Japan and ASEAN if Japan were to take a more aggressive role in providing the necessary leadership for the integration of the region.

Koizumi should pursue the package that he is in the process of devising. He will have to effectively lobby and counter the reservations expressed by Malaysia. Also, it is necessary to devise an arrangement that will suit the conditions that obtain in ASEAN and that can be seen to bring gains to the region, as well as to individual nations. Agriculture and natural

resources will have to figure prominently in any proposal that Japan seeks to bring forth since most of the ASEAN member states have economies that are highly dependent on agriculture and natural resources. Japan will also have to devise an arrangement that can give greater opportunities for the export of services and manufactured goods. China is able to offer this possibility as bait. Japan has to suggest an equally attractive reply for the region.

The Japan-ASEAN Comprehensive Economic Partnership (JACEP) is a meaningful step towards strengthening economic partnership between Japan and ASEAN. Koizumi proposed the initiative for JACEP in January 2002 in recognition of the progress that was made in various parts of the world in the area of regional economic integration, particularly in Europe and in North America. It was understood that a comprehensive economic partnership between Japan and ASEAN would provide greater market opportunities to both economies through the creation of a larger market. Such a partnership would cover a broad range of areas including liberalisation of trade and investment, facilitation measures, as well as cooperation in other areas, such as financial services, information and communications technology, science and technology, transport, energy and small and medium enterprises.

## CONCLUSION

China's rapid development has had an impact on trade with Malaysia. The volume of trade between Malaysia and China has been increasing rapidly. As a consequence of its own development and also because of its greater participation in global markets, which may have been induced by its entry into the WTO, it can be expected that China will be a destination for the growth in particular kinds of industries. Vis-à-vis the developments in China, industries in Malaysia are going to be affected. Broadly, the industries that will gain from China's growth will include timber, tropical commodities and foods, fish, mineral resources, palm oil and oil and gas. The industries in Malaysia that are likely to suffer as a consequence of competition from China would include the electrical sector, garments and textiles, footwear, and toys.

In view of the impact from China, it would serve Malaysia to take advantage of the China-ASEAN FTA. The FTA is poised to bring benefits to Malaysia. It is likely to increase trade and to encourage investment in Malaysia. However, one must add a cautionary statement, as China will definitely affect labour-intensive industries in Malaysia. These industries will not be able to withstand competition from China on the basis of the cost of labour. Nevertheless, those industries that can work on a complimentary basis in view of developments in China and those industries

that have the advantage of high technology will gain from the proposed FTA. So too will agriculture-based industries and those that employ natural resources such as palm oil, timber, cork, wood, and, oil and gas.

It would be to Malaysia's advantage, as it would be to ASEAN's, if Japan would take the initiative to promote regional integration. Japan has to provide the leadership to be able to create an arrangement that will offer a wider range of opportunities to ASEAN, and for Malaysia, in particular. In this effort, Japan has to appeal to the requirements and aspirations of ASEAN countries.

## NOTES

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- <sup>2</sup> Ram Agarwala, "The Rise of China: How to Make it an Opportunity and Not a Threat," Unpublished paper, Research and Information System for Non-aligned and Other Developing Countries, New Delhi, 2002.
- <sup>3</sup> Ibid
- <sup>4</sup> Ibid., p.19
- <sup>5</sup> See Richard N. Haass and Nicholas R. Hardy, "The United States and China: A New Framework," *Policy Brief #25*, Washington: The Brookings Institution, 1997. Also, Marcus Noland, "US-China Economic Relations," *Working Paper 96-6*, Washington: Institute for International Economics, 1996.
- <sup>6</sup> Nicholas R. Lardy, "Is China a "Closed" Economy?" Prepared Statement for a Public Hearing of the United States Trade Deficit Review Commission, February 24, 2000.
- <sup>7</sup> Nicholas R. Lardy, "Issues in China's WTO Accession," The US-China Security Review Commission, 9 May, 2001.
- <sup>8</sup> Ibid., p.4
- <sup>9</sup> See, for instance, Bates Gill and Nicholas R. Lardy, "China: Searching for a Post-Cold War Formula," *Brookings Review*, 2000.
- <sup>10</sup> Lardy, "Issues in China's WTO Accession," 2001
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- <sup>12</sup> Ibid.
- <sup>13</sup> S.Y Tham, "Competitiveness of Malaysian Exports," *Kajian Malaysia*, Vol.26, No.1, 2001.
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- <sup>16</sup> Naoko Munakata, "Focus on the Benefits -Not Threats- of Regional Economic Integration," *The Center for Strategic and International Studies PacNet Newsletter*, November 16, Washington: The Brookings Institution, 2001.
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- <sup>18</sup> Blas F. Ople, "The ASEAN-China Free Trade Area," *The Manila Bulletin*, November 6, 2002 (<http://www.dfa.gov.ph/archive/speech/ople/asean.htm>)
- <sup>19</sup> C. Fred Bergsten, "The New Agenda with China," *Policy Brief* 98-2, Washington: Institute for International Economics, 1998.
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# **GLOBALIZATION, THE NATION STATE AND SUSTAINABLE HUMAN DEVELOPMENT**

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## **INTRODUCTION**

Although globalization is expected to have a sweeping impact on all states, the purpose of this paper is to examine the effects of new global trends on the nation state in developing countries. Globalization poses serious challenges to policy makers in these countries because of the fragility of government institutions and their inability to construct effective macroeconomic policies aimed at enhancing integration within the global economy. To enhance global access, the nation state encounters a complex set of internal and external constraints, which reduce its linkages and slows down the pace of its socio-economic transformation. The inflexibility of institutional bodies and the scarcity of financial and human resources further complicate a state's performance to implement programs and policies aimed at stimulating economic growth and sustaining development. Labour unions, women, the unskilled, the uneducated, farmers, and several other underprivileged groups within the state are more likely to be seriously affected by integration into the global economy. It is reasonable to suggest that the 'shrinking of the state' negatively impacts its ability to fulfill the duties assigned to it. Furthermore, a lack of sound infrastructures to support a knowledge-based economy may relegate the state to a dictatorial entity punctuated by the enforcement of enforcing rules which are ultimately self-serving instead of holding the public, interest as paramount. This is the existing reality in many countries around the world. The unpredictable

forces of globalization create conditions whereby few countries will be able to manage. Therefore, compromise between local and global interests must be reached without undermining the sovereignty of the nation.

## **THE ROLE OF THE STATE**

Although the meaning of the state differs from that of the government, in order to avoid confusion we will adopt the two terms interchangeably. The state is defined by the World Bank as a “set of institutions that possess the means of legitimate coercion, exercised over a defined territory and its population, referred to as society. The state monopolizes rulemaking within its territory through the medium of an organized government.” On the other hand, the term government refers to “the process of governing, to the exercise of power” or to a “condition of ordered rule.”<sup>1</sup> However, it is worthy of mention, that in the new regime of globalization the sovereignty and integrity of both the state and government will be affected.

Current literature has extensively debated the fact that new global trends have the tendency to weaken the effectiveness of the nation state, particularly in developing countries.<sup>1</sup> Globalization increases economic and financial vulnerability by virtue of the high degree of trade and market concentration, which is brought on by a deepening integration into the global markets. For example, in the case of small economies, increased transparency subjects the economy to wider cyclical fluctuations, which are beyond the control of the state. Such external variations however, could lead to severe social and economic consequences, which would affect the levels of output, employment, prices and economic growth. Weak infrastructures and inadequate adjustment mechanisms are likely to weaken a government’s ability to implement its various decisions and policies not only to sustain its local development but also to increase its building capacity for deepening its integration into the global markets. In addition, market imperfections, inefficient administration and inadequate organizational facilities meant to supervise, monitor and control various investment programs, would frustrate a governments attempt to implement its policies. The World Development Report of 1997 published by the World Bank states: “An effective state is vital for the provision of the goods and services-and the rules and institutions-that allow markets to flourish and people to lead healthier, happier lives. Without it, sustainable development, both economic and social, is impossible.”<sup>2</sup>

In most developing countries, the resources available to the state are limited, which in turn influence their decisions and choices concerning the utilization of human and physical resources. For example, the earning of

foreign exchanges is vital in enhancing the state's capacity to import capital goods and raw materials needed for the implementation of development programs. The bulk of foreign exchange in developing countries usually comes from the production and export of a limited number of primary commodities, which are mainly agricultural-based and minerals. Thus, by increasing its integration into the global markets the economies of these countries become sensitive to external forces, damaging not only the various initiatives aimed at alleviating poverty but also effects the ability of governments to minimize external shocks and sustain development. Globalization also contributes to uncertainty about future planning due to the 'enormous challenges for political and governmental institutions.' Owing to the complex nature of globalization and due to weak infrastructure for building a viable knowledge-based economy, the role of the state in developing countries needs to be redefined to ensure that the basic social and economic services are not sacrificed throughout the adjustment stemming from global integration. In view of the recent changes in global trends, there is an urgency to reinvent and rethink the role of the state in order to increase its capacity-building for a balanced development. In other words, the restructuring of the state becomes critical in order to maximize economic gains and minimize the impact of global changes.<sup>3</sup>

There is no doubt that the public sector exercises a considerable influence over the management of various aspects of the economy. In the early stages of development, the role played by the state is instrumental in increasing sectoral productivity and enhancing equity. In poor countries, the large number to existing internal and external constraints complicate the undertaking of such a task. For example, without government interference the market is not expected to function adequately. In the rural areas, agriculture has become highly technical and requires both scientific and financial means, which are beyond the means of most farmers. Globalization reconstitutes or re-engineers the function of government by minimizing its role in the economy. The sweeping change brought on by globalization radically affects the lives of people in different countries at the national, regional, and local levels. New social relations, which include those of production, transportation and communication, will replace the old ones by adding a global dimension.

Rapid globalization requires radical restructuring and reforms that cannot be materialized without the building of adequate infrastructures, the development of skills and the establishment of institutions. Due to widespread poverty, national economic policies must be directed at providing the necessary means for its domestic economy to meet the basic needs of its public. To do so, globalization must be employed, as an integral unit of the national development policy if it is to become an effective strategy

for socio-economic development. There is a need for effective policies to attract foreign direct investment to balance development. Globalization is bias, in favor of industry and urbanization. But with government support and incentive programs for various sectors of the economy, it is possible to balance development through increasing linkages and by product diversification. In addition to human and physical resources, indigenous development must be designed to meet environmental requirements with which at present, foreign direct investment is unconcerned.

Good governance is another important dimension that can be effectively used in the process of deepening global integration and harnessing the benefits of globalization. The implementation of domestic economic policies depends on good governance in order that governments achieve their ultimate objectives. In developing countries however, the process of establishing good governance may not be easy due to the complexity of the elements involved in its capacity-building<sup>4</sup>. The capacity to increase global integration and facilitate globalization will depend on the country's ability to create conditions for a dynamic economy and sound social and environmental policies. In recent years, both internal and external pressures are being employed against governments to introduce reforms and improve governance. In recent years, the demand for democratization, human rights, justice, equity and freedom have been intensified both locally and globally. Implementing such steps is essential for building a civil society capable of increasing public participation, improving transparency and accountability and sustaining development. The elements of good governance constitute the "framework of rules, institutions and practices that set limits on the behaviour of individuals, organizations and companies."<sup>5</sup> In the new global age, good governance should not be limited to the rule of conduct and practices by governments and individuals, but must also include the corporate sector, transnational corporations and international institutions. In integrated global markets, decisions made by global actors could have far reaching consequences on the flow of international trade, foreign direct investment, global finance, and economic development. National governance is no longer limited to domestic rules and regulations rather new global trends, influences and affects state sovereignty over its own decisions making. In other words, the role of good governance must to be measured against the country's objectives to enhance its economic efficiency and sustain its socio-economic development. Globalization should be incorporated in government strategy to accelerate domestic development and increase global linkages. Facilitating such conditions underline the need for greater accountability, openness, transparency, freedom, equity and growth, which are all important for improving market confidence and promoting globalization. Market imperfections, corruption, inefficient institutions and economic mismanagement mar the challenges facing many of the

developing countries. The Asian crisis, which engulfed several countries throughout Asia in 1997, was due to a lack of good governance as well as to the apathetical approach to the risk of globalization. As a result, many Asian countries, in particular Indonesia and Thailand, suffered severe social, economic and political repercussions. Adequate precautionary measures to minimize the impact of globalization may be established by broadening the principles of good governance. Strengthening the role of good governance could provide greater incentive for foreign investors, particularly in countries that receive a sizable amount of foreign capital such as Indonesia, Malaysia and Thailand. Furthermore, good governance improves a country's competitiveness by reducing its financial vulnerability and economic instability. Well functioning markets, adequate institutions, sound macroeconomic policies, good infrastructure, and political stability are important elements in achieving economic sustainability. The United Nations echoes the notion that globalization offers a greater opportunity for human advance - but cautions that this is only possible with strong governance.<sup>6</sup>

Global governance is another feature that has emerged from the recent debate on globalization. At present, developing countries play a minor role in global decision-making and their influence is expected to further diminish against the emerging trends of globalization. Discriminatory trade practices against developing countries in world markets have impaired economic development by increasing instability of export earnings, reducing government's revenues and expenditures, the rising foreign debt and a decline in confidence in reference to the domestic market. Globalization is changing the institutional structure of the state to 'move more toward genuine globality.'<sup>7</sup> It is forcing countries to restructure their economies by liberalizing their financial institutions, privatizing public enterprises and deregulating trade in order to attract foreign direct investment and facilitate the activities of transnational corporations. The tendency for such restructuring is said to increase institutional flexibility as well as to allow countries to benefit from globalization. Adapting to globalization reduces the risk of macroeconomic instability and improves a country's ability to compete in international markets. Trade, and more recently globalization and the environment, have always been important issues in terms of international relations and factor movements. Although, there is no adequate definition to global governance, Leon Gordenker and Thomas Weiss define the term as "efforts to bring more orderly and reliable responses to social and political issues that go beyond the capacities of states to address individually."<sup>8</sup> Weak states may not be able to exercise enough influence to protect their interests in the global markets. Global governance enhances the capacity of individual countries to gain from international relations through greater cooperation and by approaching

globalization through collective means. However, poor countries will continue to be at a disadvantage not only because of their inadequacy in negotiation skills but also due to the their weak influence over global institutions. Gerald K. Helleiner explains:

“There is good reason to fear that the future evolution of governance arrangements for the global economy will continue to be seriously biased in favor of the interests of industrial countries, particularly the G-7 countries, whose governments and private firms - and even in some cases nongovernmental organizations - now exercise disproportionate influence over global economic affairs. To the extent that future global governance arrangements are undertaken through or in conjunction with the private (nongovernmental) sector, they are likely to be even more biased towards Northern interests and perceptions than they already are in intergovernmental institutions and processes. Consequently, there must be concern as to whether emerging global economic governance arrangements will grant sufficient weight to the imperative sustainable global human development and the struggle against human poverty.”<sup>9</sup>

## **SUSTAINABLE HUMAN DEVELOPMENT**

In recent years, emphasis has shifted in favor of enlarging human capacity and sustainable development as an alternative to neoclassical theories, which emphasize output as a target for development. The role of the state is instrumental in endorsing such an objective because of the influence it exercises over the allocation of resources and capacity building. The market alone may not adequately function to sustain growth due to profit motives and a lack of incentives for investment in social capital. Experience with economic growth in some Asian countries during the last two decades has shown that government interventionist policies have facilitated rapid changes by strengthening market fundamentals. Malaysia is a case in point where effective economic management and incentive programs have created a resilient economy able to withstand external shocks and financial turbulence. There is no doubt that various government regulatory measures and financial monitoring systems have contributed to minimizing the impact of globalization, which have severely affected other countries in the region. Liberalization and privatization policies are expected to radically change production relations, industrialization, urbanization and accessibility to markets, especially at the global level. The allocation of resources to endorse global integration usually favors export promotion instead of local development. In addition, globalization is expected to have a distributional impact on various segments of the

society owing to changes in labour, the ineffectiveness of government policies and capital inflows.<sup>10</sup>

The concept of sustainable human development shifts emphasis from a production-centered to a human-centered development. Sustainable development means to balance the needs of the present generation against the environment without jeopardizing future generations. The Human Development Report of 1994 defines sustainable human development as follows:

“Sustainable human development is pro-people, pro-jobs, and pro-nature. It gives the highest priority to poverty reduction, productive employment, social integration, and environmental regeneration. It brings human numbers into balance with the coping capacities of societies and the carrying capacities of nature... It also recognizes that not much can be achieved without a dramatic improvement in the status of women and the opening of all opportunities to women.”<sup>11</sup>

Endorsing policies meant to implement programs aimed at sustaining development might require governments to modify their policies towards economic growth. Issues such as equity, equal opportunity, gender, universal education, and income distribution must be given priority in the national development strategy in order to facilitate the growing human capacity. A larger share of government revenues should be diverted towards facilitating economic globalization instead of promoting development in the domestic economy. Similarly, transnational corporations usually pay little attention to investment in social capital, preferring instead projects that yield high returns. An overview of the economic restructuring to accommodate globalization seems to suggest that the state's ability to balance development will be diminished. Foreign direct investment is mainly concentrated in the manufacturing sectors and mineral extraction industries with little interest in rural development and agriculture production. In addition, the economic activities of a developing country depend on the purchasing power, which is relatively weak. Thus equity and the distribution of income become necessary to effectively increase demand and improve the circulation of money within the economy. Moreover, sustainable human development involves the endorsement of such principles as cooperation, empowerment and security, which force governments to create conditions to facilitate these principles. In other words, sustainable human development requires an effective, efficient and accountable government capable of delivering on its promises to its citizens.<sup>12</sup>

There is no doubt that integration into a global economy will weaken the effectiveness of governments to implement some of the programs

necessary in advancing the cause of sustained human development. To avoid the erosion of state sovereignty over the economy, there is a need to restructure the state in a fashion that will encompass all administrative, institutional and organizational bodies. In doing so, a government becomes more flexible and is more likely to adjust to rapid changes in the global economy. Improvement in the administrative and managerial capabilities of the state will help both private and public sectors in speeding up the process of local sustainability and global integration. In the Middle East and North Africa for example, the future challenges of sustained development lie in the management and utilization of scarce resources, namely water, agricultural land and environmental pollution. With the exception of the oil rich exporting countries, the rest of the region is in dire need of strong and effective managerial, administrative and financial support mechanisms in order that control over the main socio-economic determinants required for sustained development is maintained geared towards.

There is a need for strong public relations programs increasing awareness about the challenges of globalization. Public participation and democratization constitute an important step towards sustainability, and shared duties and responsibilities between the state and the public. Solving economic and social problems cannot be accomplished without public cooperation. Similarly, without proper effective macroeconomic policies and sound decisions it will be difficult to promote sustainability. The immediate impact of government decisions is reflected by its citizens and therefore, the process of social transformation must involve the shared interests of various groups and nations.

## **THE NEW REALITIES OF MARKET DEVELOPMENT**

In the new global environment the role of the state should be strengthened, not weakened, in order to facilitate a balanced functioning of the economy between local and global markets. The readjustment process following global integration may cause dislocation, unemployment, inequalities and regional imbalances. Thus, building strong institutions could minimize the impact of globalization by reducing financial vulnerability, protecting the environment, creating economic opportunities, providing social safety nets, and improving political instability. To respond to challenges of globalization and strengthen market development, input from both public and private sectors is needed. An important policy choice meant to harness benefit from integration into the global economy, as well as from the operations of transnational corporations in the local market, increases flexibility in terms of the management of the economy. In many developing countries, the private sector owing to lack of business practices, managerial



skills, financial resources and narrow export base is not familiar with the functioning of the international economy. Economic globalization is also changing the rules in which the global economy operates, as well as in the way competition is conducted among various players. Economic growth in Southeast Asia is largely attributed to strong government, owing to its ability to provide strong leadership and the enforcement of adequate macroeconomic programs. Structural reforms to meet global changes are a complex process and therefore require the cooperation of all economic agents. The challenges to the state under these conditions constitute an enormous task. To balance market development, the government must also provide macroeconomic stability, generate adequate revenues, maintain basic services to the public and promote competition abroad. Transition to a market economy in East Europe in the aftermath of the cold war has thus far proven to be costly in terms of the economic and social consequences associated with reforms.<sup>13</sup>

However, in the case of developing countries, integration into the global economy may have severe consequences due to the non-existence of some of the main ingredients necessary to qualify as competitors in the new knowledge-based economy. Globalization is very selective in terms of production, region, skill and investment. In the process, globalization may cause higher unemployment, environmental indiscretion, social unrest, and income inequalities, which constitute a threat to national security. Balanced development may require a greater allocation of resources for rural development and in order to create job opportunities, reduce poverty, and improve a country's food security. On the other hand, in urban areas privatization and restructuring may require government support mechanisms to protect workers. Protection comes by way of creating job replacement opportunities and providing the necessary social services to compensate for unemployment. Malaysia is a case in point where a substantial portion of the country's most recent development plans was allocated for investment in rural areas to combat imbalances in urban centers owing to globalization. Without such government initiatives, rural populations would be marginalized due to the concentration of industries in urban centers, limited private investment, weak infrastructure, and the unwillingness of transnational firms to re-locate their operations to rural areas. The function of the government is then to strengthen the foundations meant to increase the role of both the individuals and the market in the process of its development. Flexibility in various government operations, policies and decisions will depend on the quality of civil servants as well as on sound decisions in allocating limited resources. The centralization of policy-making decisions under the umbrella of globalization may be less effective to dealing with new emerging trends. Hence sharing the burden of decision making and decentralizing power becomes necessary to overcome some of the

shortcomings of globalization. In the developing countries, the inadequate number of qualified people may pose obstacles to the implementation of reforms restructure. In addition, many of the developing countries lack adequate institutions designed to mobilize resources, which include tax revenues for effective programs in promoting human development.<sup>14</sup>

## **THE IMPACT OF LIBERALIZATION AND PRIVATIZATION**

In recent years the rush to adopt globalization has witnessed financial liberalization, capital flows and privatization. Globalization benefits only those countries with an advanced financial market, large stock markets, capital markets and money markets. Perhaps the most serious challenge facing developing countries in trying to compete in the global economy is the lack of financial markets. Thus the benefit these countries may hope to obtain from globalization will be severely limited particularly in terms of industrial growth and information technology.

Large fluctuations of financial prices, which include stock market prices, make the economics of developing countries highly sensitive to changes in monetary variables both locally and at the international level. In the meantime, uncertainty about market stability reduces confidence in the local economy. Stock market instability increases speculation about future prices, which in turn limits investment to short-term monetary gains rather than to long-term sustainable growth. In developing countries, the lack of control over monetary variables reduces the state's ability to plan for long-range development programs owing to the unpredictable nature of its financial markets. The ongoing problems of the newly industrialized countries in Southeast Asia, which include Malaysia, Indonesia and Thailand, has, since early 1997, mainly targeted financial insecurity. The severity of the crisis has been more noticeable in Indonesia where political instability and financial market uncertainty, including the unstable currency market, have contributed to the near collapse of the economy. Early financial liberalization, capital flows and foreign debt were left to market fluctuations without sound regulatory measures meant to minimize speculative movement. In the end it was speculative movement that caused the destruction of the region's economy. In the case of Thailand despite the fact that the government spent about \$15 billion of its international reserves to support the national currency, it could not resist the pressure of speculators. The social cost of the crisis has been very significant in terms of poverty, unemployment and prices. The absence of social safety nets and effective public support programs, led to radical reversals in the achievements of human development in the countries affected. The devaluation of the currencies of the region not only increased their external debt, but also had a devastating impact on their financial institutions, capital outflows and credit facilities.<sup>15</sup>

Under the regime of globalization and deregulation it has become difficult for countries to pursue an independent monetary policy. In globalized markets, the ability of the state to attract capital is hampered by high risk and the lack of financial guarantees to investors. The other disadvantage, which many nation states have been experiencing during the past several years was increased reliance on borrowing on world market. Furthermore, due to the balance of payments disequilibrium, deterioration in terms of trade, and a decline in commodity prices, these states were not able to generate enough savings to supplement the supply of capital for investment in local markets. Low saving ratios reduces a country's ability to borrow in foreign financial markets in order to finance its economic and social development programs. Foreign direct investment becomes the most attractive source of capital to these countries. This may be more beneficial in the sense that it carries with it technology transfer, skills and managerial know-how. Nemir Kirdar believes that:

“the globalization of financial markets is of much significance to the developing countries than the creation of more efficient domestic financial intermediation systems, and it seems clear to me that developing countries cannot take advantage of and participate in a globalized, international financial system as long as their own domestic financial systems remain in an embryonic and/or inefficient stage of development.”<sup>16</sup>

Small states are no longer independent in making decisions concerning the utilization of domestic resources. At the present time, the powers of decision -making rest in the hands of a few industrialized countries mainly the G-7 group. The United Nations endorses such a view by arguing that:

“Poor countries and poor people have little influence and little voice in today's global policy-making forums. The most important and influential is the G-7, whose members control the Bretton Woods institutions through voting rights and the UN Security Council by occupying three of the five member permanent seats.”<sup>17</sup>

Since the end of the Second World War, experience has shown that despite the fact that some progress has been made by the development world from international institutions the gap between rich and poor increased considerably.<sup>18</sup> This may be seen in the global distribution of income where the top 20 per cent of the world's population earned 86 per cent of global GDP in the year 2000. The limited accessibility of these countries to global technology, and finance and investment has not only weakened a state's ability to deliver but has also threatened its national security. In the case of Indonesia, for example, the economic crisis has developed into

a major political problem, which is threatening the unity of the country. National security has greatly deteriorated owing to the inability of the government to enforce laws, maintain economic stability, and regain confidence lost to external and internal investors. The IMF solution to economic problems is to implement austerity measures, which may not necessarily be effective under such circumstances due to the minimizing role of the state over the economy. Furthermore, introducing reforms to facilitate globalization requires the direct involvement of the state to ensure that the process of integration is implemented without major damage to the social equilibrium. Privatization would fail to achieve its desired objectives without government incentive, supervision and sound policy formulation. Regulatory measures to reduce market inefficiency and to prevent the concentration of economic power in the hands of a few are necessary for privatization to succeed. The state on the other hand, by becoming an integral part of a larger entity, i.e. globalization loses control over the market, particularly the operations of the multinational corporations in the local economy. In order to attract foreign capital and promote international business, the state has to compete by providing tax incentives, easy labour relations and other benefits. The pressure on the government for greater management over the economy is increasing by virtue of the need for control over the free movement of goods, drugs, pollution, smuggling and people. Globalization is linked to expansion in industrial production, which brings with it pollution, labour movement, dislocation and regional imbalances. By strengthening its position over such emerging trends, the state may have to increase its security by buying arms and maintaining a larger police and military force. The United Nations, in its Human Development Report of 1999 identifies six areas where major security problems are brought on by globalization. These include job and income insecurity, health insecurity, cultural insecurity, personal insecurity, environmental insecurity, and political and community insecurity. These emerging problems pose major threats to the national security of the state and hence, more of the state's resources will be allocated towards combating these problems.

## **THE NATIONAL IDENTITY**

An important aspect of the debate about globalization is the weakening of the national identity of both the state and citizen. In the former a rapid integration into a global village society may tend to diminish the state's power in relation to other states. The role of the state becomes smaller owing to the fact that its power in relation to the global total is reduced. A borderless village implies that the movement of factors, in particular

labour, will be intensified causing greater interconnections among individuals, groups, cultures and nations. Such interdependencies are also expected to affect the worldviews of various groups and nations by changing some of the basic fundamentals of the social equilibrium. It is worth mentioning that the new global trends behind the forces of globalization are mainly of Western origin and are deeply rooted in the process of modernization, which occur in Western societies. Globalization is spreading these values across the globe through the use of modern information technology, also a product of Western invention. The rest of the world is invaded with a variety of social values, consumer products, lifestyles, films, ideas, and cultural programs, which may not necessarily be compatible with local ways of life. Due to lack of financial, and technological expertise the inability of the nation state to minimize the impact of such global trends could cause an identity crisis and generation gap. A recent survey among young people in Singapore showed that 25 per cent of those surveyed preferred to be Japanese or Westerners. If such a trend continues it may lead to a standardization of social values to the extent of causing cultural fragmentation and the loss of identity. A recent study by UNESCO dealt in depth with the issue of human diversity and brought forward convincing arguments in favor of cultural diversity as a means for enhancing people's progress.<sup>19</sup> However, this is not new as far as the Islamic World is concerned where human differences and cultural diversities are clearly stated in the Qur'an as a means of mutual knowledge and recognition of others. Globalization is likely to change that by diluting the cultural diversity of groups and nations in favor of one super culture.

In order for the state to gain from globalization and at the same time sustain development at home it will have to take certain policy measures capable of deepening integration with a minimum cost to society. First, education and the development of skills are an important priority needed to meet the requirements of a knowledge-based economy. To prepare the economy for greater access to global markets, substantial investments are needed in the areas research and development. This will produce quality products and invent better techniques in production. In developing countries skills are in short supply and thus it becomes difficult for these countries to compete due to cost factors and inefficiency in production operations. Globalization is causing the developing countries to suffer from the brain drain. The role of the state in providing the necessary skills, training, and incentives to respond to the challenges of globalization becomes a matter of national priority. Second, social safety nets are needed to protect the least fortunate in society from the impact of globalization and to strengthen social capital and economic fundamentals in order to minimize external shocks and promote market development. Third, necessary labour market

flexibility and on the job training. Fourth, a balanced development so as to reduce imbalances between regions strengthens rural communities, protecting the environment, and improving urban settlements is a requirement.

## **NATIONAL SECURITY**

Being a borderless phenomenon, globalization aims to put the security of nation state at risk. Decision- making concerning economics, social, political and military matters requires some degree of secrecy if the security of the state is to be protected. Rapid global transformation, interconnections and interdependencies among nations, institutions, groups and individuals have complicated the state's ability to control the main determinants, and to preserve its national sovereignty and cultural integrity. Increasing cross borders flows of goods and service, factor mobility, in particular labour and information have the tendency to bring with it a considerable risk to the social, cultural, economic, environmental, political establishments, and institutions of the nation state. Smuggling of all forms, money laundering, health problems including AIDS, pollution, and radical ideologies are a new phenomenon, which many nation states have to learn to deal with. This in turn will add an additional and unnecessary cost to the nation's treasury which is beyond a poor country's ability. Furthermore, in cases such as nuclear disasters, pollution, the spread of disease, and the dissemination of undesirable information, many nation states do not have the expertise, scientific know-how and technological methodology to deal with them. In this respect globalization implies "not only the universal dissemination of goods but also the dissemination of bads."<sup>20</sup> Industrial accidents, such as the one in Bhopal, India and Chernobyl, Russia are examples of the threat to human security in the presence of an unmanaged globalization program.

## **CONCLUSION**

In this paper, a brief description of the impact of globalization and the role of the state in the management of the national economy has been outlined. The main purpose of this paper has been to highlight some of the issues currently debated in relation to the weakening position of state sovereignty over the economy. Globalization is bound to affect all states but the damage to the developing countries is expected to be more severe owing to the weak infrastructure and lack of financial markets. Integration into the global economy reduces the effectiveness of government policies, increases economic uncertainty and causes major structural changes within the economy. The role of the state becomes vital in balancing global and domestic markets, and in providing the necessary mechanisms to protect the interests of its citizens, and as far as possible in protecting national sovereignty and culture.

## END NOTES

- <sup>1</sup> World Bank, *World Development Report 1997: The State in a Changing World* (New York: Oxford University Press, 1997) p. 20
- <sup>1</sup> See Anthony G. McGrew, *Globalization: Conceptualizing a Moving Target*, in Swedish Ministry of Foreign Affairs, *Understanding Globalization: the Nation State, Democracy and economic Policies in the New Epoch* (Stockholm: 1998); Robert J. Holton, *Globalization and the Nation State* (New York: Macmillan Press Ltd., 1998).
- <sup>2</sup> United Nations, *Human Development Report 1999* (New York: Oxford University Press, 1999) p. 1
- <sup>3</sup> See John Shields and B. Mitchell Evans, *Shrinking the State: Globalization and Public Administration Reform* (Halifax: Fernwood Publishing, 1998).
- <sup>4</sup> Dharam Ghai defines capacity building as: "skills, aptitudes, knowledge and capabilities of individuals, organizations and institutions to undertake activities to improve living standards, attain economic and social security, raise productivity and achieve sustainable development." See Dharam Ghai, *Poverty Reduction and the UN System: A Synthesis of Six Country Studies*, in Roger Maconick (ed.), *Capacity-Building for Poverty Reduction* (New York: United Nations, 2002) P. 65.
- <sup>5</sup> United Nations, *Human Development Report 1999* (New York: Oxford University Press, 1999), P.34
- <sup>6</sup> See United Nations, *Human Development Report 1999*.
- <sup>7</sup> See Assem Prakash and Jeffrey A. Hart, (eds.) *Globalization and Governance* (London: Routledge, 1999), p. 4
- <sup>8</sup> Quoted by David A. Lake, *Global Governance in Assem Prakash and Jeffery A. Hart (eds.) Globalization and Governance* (London: Routledge, 1999), p. 33.
- <sup>9</sup> Helleiner, Gerald K., *Markets, Politics, and Globalization: Can the Global Economy Be Civilized?*, *Global Governance*, Vol. 7, No. 3, July-September 2001, P. 249.
- <sup>10</sup> See Raymond Torres, *Towards a Socially Sustainable World Economy*, (Geneva: International Labour Office, 2001).
- <sup>11</sup> United Nations, *Human Development Report 1994* (New York: Oxford University Press, 1994), P. 4.
- <sup>12</sup> For detailed analysis of various aspects of sustainable development see Jonathan M. Harris & et. (eds) *A Survey of Sustainable Development: Social and Economic Dimensions* (Washington: Island Press, 2001).
- <sup>13</sup> See United Nations Development Programme, *Reconceptualising Governance: discussion Paper 2* (New York: United Nations, 1997); United Nations Development programme, *Public Sector Management, Governance, and Sustainable Human development* (New York: United Nations, 1995).
- <sup>14</sup> Alejandro Grinspun, (ed.) *Choices for the Poor: Lessons from National Poverty Strategies*, (New York: United Nations Development Programme, 2001).
- <sup>15</sup> See Richard C. Longworth, *Global Squeeze*, (Chicago: Contemporary Books, 1998). Also Uner Kirdar, (ed.) *Change: Threat or Opportunity? Market Change*, (New York: United Nations, 1993).

- <sup>16</sup> Nemir Kirdar, Implications for the Developing World of the Globalization of Financial Markets, in Uner Kirdar, (ed.) *Ibid*, p. 26
- <sup>17</sup> United nations, Human Development Report 1999 (New York: Oxford University Press 1999)
- <sup>18</sup> For detailed evaluation of the international institutions see Jo Marie Griesgraber & Bernhard G. Gunter (eds.) *Development: New Paradigms and Principles for the twenty-first Century*, (London: pluto Press, 1996).
- <sup>19</sup> United nations Educational, Scientific, and Cultural Organization, *Our Creative Diversity* (Paris: UNESCO Publishing, 1995).
- <sup>20</sup> Keith Griffin and Azizur Rahman Khan, (eds.) *Globalization and the Developing World: An Assay on the International Dimensions of Development in the Post-Cold War Era* (Geneva: UNRISD, 1992), p. 62.



# GLOBALIZATION AND THE NATION-STATE

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## I. INTRODUCTION: GLOBALIZATION - ITS NATURE AND SIGNIFICANCE.

In order to make as fair and accurate an assessment as may now be possible of the impact which Globalization has so far made, or may reasonably be expected to make in the foreseeable future, on the nation-state in general and in the Muslim World in particular, we first need to look, however briefly and synoptically, at Globalization. What is it? And, how does it function? Is there more to it than being just another "buzz word" of modern times?

A manifestly controversial and variously understood phenomenon, Globalization may be briefly described as all those processes - technological, economic and financial, as well as political, social and cultural - in consequence of which space ship earth and all its inhabitants have recently been transformed, with hitherto unprecedented speed, into what is, in effect, a single relatively distance less and borderless planetary village.

As such Globalization is an essentially new phenomenon which available evidence strongly suggests goes back to the 1980s or, at most, a decade or two earlier.

To this however some have objected, arguing instead, that the process of global unification and transformation under consideration has been in progress, at least, since the age of European discoveries in the fifteenth century.

Yet others would have us believe that Globalization has a very much longer history. Thus a Japanese scholar recently addressing a predominantly Muslim audience at Cairo University suggested that it was the rise of Islam in the seventh century A.D. that marked the beginning of Globalization.<sup>1</sup> And writing two years before, Professor Ali Mazrui, also referred to what he called the "Globalization of Islam" and "the Globalization of Christianity" saying that the latter started with the conversion of Emperor Constantine in 313 A.D.<sup>1</sup>

With all due respect to distinguished colleagues and friends however, it seems uncontestable that a less poetic approach to the subject would clearly reveal that, although historical epochs do often overlap and intertwine, and the Age of Globalization is therefore inconceivable in isolation from the many important economic, scientific and technological developments which preceded it, especially since the industrial revolution - Globalization is characterized by a number of distinctive features which clearly mark it off from earlier epochs of history.

Prominent among these features, which mark Globalization off from earlier phases in history and make it a distinctively modern - even contemporary - phenomenon, are the following:

- i) The transformation of global trade and financial transactions, mostly carried out by gigantic Trans-National Corporations (TNCs) on such massive scales and at such speed, that time, distances and traditional state boundaries no longer count for much.

With far more than a trillion dollars turnover each day on global currency markets and vast amounts of capital being transferred from one side of the world to another at the click of a mouse, the world economy today, it has correctly been said, is vastly different: not only from that of the distant past, but even from what it used to be as recently as the 1980s.<sup>2</sup>

- ii) But electronic communications - together with modern means of transportation whether by sea, land or air - have not only revolutionized the world economy; they have also transformed the socio-cultural scene the world over. Values, tastes and life styles are being homogenized and a cosmopolitan global culture is fast developing. It is not only that the world is being inexorably McDonaldized and Coca-Colized; family values and traditional cultures - including those of Islam and the Muslim World - are

being tested and challenged everywhere and every minute around the clock.

This, also, is a new and unprecedented situation in world history.<sup>3</sup>

It is because of the awareness of the novelty of the situation on account of these and related developments - some of which we shall presently consider - that the term Globalization was first coined to indicate the new phenomenon.<sup>4</sup>

Some two hundred years ago the world at large and Europe in particular experienced a similarly radical transformation. Sensitive and discerning minds became increasingly aware that a new phase in history was then being ushered in: a phase in which nationalism and the nation - state were emerging as the predominant forms of political organization in place of the hitherto familiar feudal system. To mark the change, especially with regard to relations between the emerging nation-states, Jeremy Bentham then coined the phrase "inter-national" relations; i.e. relations between nation-state; which, incidentally, is perhaps more accurately reflected in the Farsi term *baynal milali* than it is in the Arabic *al-'alaqat al-dawaliyya* or *al-'alaqat al-'alamiyya*.

Today however the nation-state with its attendant hallmarks of territorial boundaries and national sovereignty is in many ways being severely challenged, if not actually superseded, by global forces with which neither boundaries nor sovereignty count for much. The term 'Globalization' has been coined to designate and reflect this new reality - much in the same way as "international relations" had been in the 1780s; i.e. about two hundred years earlier.<sup>5</sup>

This brings us to the second part of our subject.

## II. THE NATION STATE

For well over three hundred years until the present day, the nation-state has been - and to a large extent remains - the most widely, if not universally, accepted form of governance. Today the U.N. has 194 member states: big and small, rich and poor, strong or weak - but all formally regarded as equal members of the world body.

Be that as it may, the nation-state, it is important to remember, is Western, more specifically West European, by origin. From Europe, and very much under European influence, notions of nationalism and the nation-state spread to other parts of the world - including the Muslim world.

Although modified in various ways and to greater or lesser extents in order to fit different local conditions around the globe however, the nation-state everywhere continues to be characterized, above all, by certain traits and attributes which reflect - in various ways and varying degrees - the European origins from which it first sprang.

Generally described as The Westphalia System (after The Peace of Westphalia, 1648) the most important characteristics of the nation-state as it has since evolved may be briefly indicated as follows:

1. Territoriality: i.e. the state is separated from other states by clearly defined borders or frontiers.
2. Sovereignty: meaning that the state (in modern times a formally organized and often centralized public authority) exercises comprehensive, supreme and exclusive control over its designated territorial domain.
3. As a heritage of the Age of Revolution (American, French etc) the state - especially and less incredibly in liberal democratic countries - is considered to be the representative of 'the people' or 'the nation' whose consent gives legitimacy to the state and its actions.<sup>6</sup>
4. A major heritage of the conflicts of Church and state, of ecclesiastic authorities and scientific enquiry, and of the bitter and prolonged religious wars in Europe, is that the modern state tends to be, to a greater or lesser extent, secular: a tendency which, when transmitted to the Muslim World in particular, has precipitated some highly divisive and controversial consequences.<sup>7</sup>

### III. IMPACT OF GLOBALIZATION ON THE NATION-STATE

As has already been indicated the classical conceptualization of the nation-state has had to be modified in many respects with the passage of time - even before the coming of Globalization. With Globalization setting in, the situation has been largely transformed giving rise, *inter alia*, to a widely held perception that the nation-state with its various characteristic features is fast becoming a relic of the past - if it has not already been buried and done away with. Among the most important factors, which have given rise to the new situation, are the following:

First, and in terms of political and strategic considerations, the emergence and subsequent proliferation of such supranational structures as the European Union, NATO and SEATO, and of such international bodies as the World Bank, IMF and GATT, has made it necessary for states to qualify or

compromise over sovereignty in order to make it possible for member states in the said organizations to work together. This has resulted in the inexorable, if gradual, "erosion of sovereignty" as it has been designated, perhaps somewhat pessimistically, by some - and hence, according to these, the decline of the nation-state itself.<sup>8</sup>

Secondly, and in terms of economic activities, the progressive internationalization of such key factors as communications, production, trade and finance - coupled with the growth world wide of Trans-National Corporations (TNCs) in unison - have made it increasingly difficult, if not impossible, for states to manage autonomous national economies. Issues of central importance in the national economies of states (such as employment and monetary and fiscal policies of governments) can no longer be settled without due consideration of regional, international or transnational factors and players. Accordingly, the eminent Japanese international business analyst, Kenichi Ohmae, has argued that, in fact, the nation-state is already well on the way to becoming "a nostalgic fiction".<sup>9</sup>

In support of Ohmae's point of view - though not necessarily going as far as he has done - it can be added, thirdly, that even cultural and educational matters, traditionally national concerns par excellence, can no longer be regarded as exclusive domains of the nation-state. The growth of global mass media and of electronic communications has detracted from the nation-state's domination over information and language education. Consequently, "important cultural and psychological underpinnings of sovereignty"<sup>10</sup> have been loosened - with serious implications for such basic and sensitive issues as loyalty and identity.<sup>11</sup> The problems arising in this connection tend to become particularly acute and complex in Muslim and Third World countries as a result of the generally excessive reliance of local media on foreign, especially Western, sources and news media even when reporting on Islamic or Third World issues. Not surprisingly therefore the final - and tragic, or tragic-comic - outcome of such dependence on foreign sources is that recipients tend to see their neighbours, their compatriots - and even themselves - through foreign eyes, and to act accordingly.

Cultural imperialism to which Muslim - and Third World - peoples at large are thus subjected has been incisively analyzed by James Petras in an article, which is well worth noting in this connection. Having pointed out that, while imperial arms destroy civil society and banks and multi-nationals pillage the economies of Third World countries, cultural colonialism, he argues, seeks to destroy national identities and rupture the solidarity of communities by, among other things, promoting the cult of "modernity" as conformity with external symbols, attacking social bonds in the name of "individuality", and desensitizing the public to make mass murder by Western states (such as mass bombings in Iraq and so called "targeted killing" of people in occupied Palestinian territories) routine, acceptable activities. "Cultural terrorism", Petras continues, by preying on the

psychological weaknesses and deep anxieties of vulnerable Third World peoples, particularly their sense of being “backward”, “traditional” and oppressed, projects new images of “mobility” and “free expression”, destroying old bonds of family and community, while fastening new chains of arbitrary authority linked to corporate power and commercial markets... Cultural imperialism questions all pre-existing relations that are obstacles to the one and only sacred modern deity: the market... It has [thus] become fashionable to evoke terms like “globalization” or “internationalization” to justify attacks on any or all forms of solidarity, community and/or social values.”<sup>12</sup>

The inability of nation-states to cope - individually and independently - with many of today’s challenging circumstances is clearly demonstrated, fourthly, in connection with a wide range of climatic and environmental problems such as those of the ozone layer, biodiversity, and the pollution of air and water around the globe. It is obvious that such problems cannot be effectively dealt with by states acting separately. Cooperation on a global scale - even if it means compromising over the exercise of sovereignty - is clearly imperative.<sup>13</sup>

The same is true with regard to combating such pandemic diseases as AIDS, and such internationally organized forms of crime as dealing in narcotics and sex slavery. Collective action on the part of all states is essential for meeting global challenges in these and similar fields as well.

Developments in international law, especially since the Second World War and in connection with the protection of Human Rights in particular, have in the meantime added a fifth ‘gap’<sup>14</sup> between the classical theory of sovereignty and its practice today. Three major landmarks are particularly worth mentioning in this connection. First amongst these is the International Tribunal at Nuremberg which laid down, for the first time in history, that when state laws happen to be in conflict with international laws that protect basic humanitarian values, individual persons must transgress the former in favour of the latter - except where there is no room for ‘moral choice’.<sup>15</sup> Concerned to take the first steps for the collective enforcement of certain of the Rights contained in the UN Declaration of 1947, the European convention for the Protection of Human Rights and Fundamental Freedoms (1950), for the first-time, gave individual citizens the right in principle to initiate proceedings against their governments.<sup>16</sup> That meant, in the words of Professor Capotori, that the state is no longer “free to treat its own citizens as it thinks fit”.<sup>17</sup> This position was further reinforced by the subsequent adoption at the U.N. and elsewhere of a series of resolutions and conventions whereby humanitarian intervention was in certain cases sanctioned “for the sole purpose of preventing or putting a halt to a serious violation of fundamental human rights, in particular the right to life of persons, regardless of their nationality”.<sup>18</sup>

The potency of these changes in defending human rights at the international level was dramatically demonstrated in December 1998, almost exactly fifty years after the promulgation of the Universal Declaration, in connection with the arrest and subsequent trial of General Augusto Pinochet, the former President of Chile. The Pinochet case was momentous, as one commentator put it, because it was in that connection that "sovereign immunity" was, for the first time, decisively and unequivocally "not allowed to become sovereign impunity".<sup>19</sup>

In view of the many and important developments which have thus taken place in the economic, legal, political and cultural powers and functions of the nation-state since the Westphalia System was first established and, more especially in recent times, under the impact of Globalization, some observers, as has been indicated above, have concluded that the nation-state is now a mere relic of the past; and that national sovereignty, whatever its origins and significance in days gone by, is today little more than juridical and political fiction.

Closer and, it may not be out of place to add, calmer and less agitated, examination of the evidence, however, clearly shows that - although classical conceptualizations of sovereignty *a la* Bodin, Hobbes and Rousseau for example, are no longer viable, the principle of sovereignty itself has not been jettisoned; also that, although the nature (meaning: role, powers and functions) of the nation-state may have changed or even been transformed in certain respects, the nation-state itself has undoubtedly survived and continues to function as a major instrument of government in today's rapidly changing world. Thus, it has been correctly suggested, "the willing surrender" of aspects of sovereignty by, for example, member states of the European Union, has facilitated the survival of European nation-states faced, on the one hand, with dominance of the U.S.A. in the first three decades following World War II and the rise of the Japanese economic challenge on the other.<sup>20</sup> Another writer - who, significantly, speaks about the "pooling" of sovereignty in the E.U. rather than the "erosion" thereof - rightly says that "the nation state survives even though some of its powers have to be pooled with others, and even though many apparently sovereign decisions are seriously constrained, or made ineffective, by the decisions of others as well as by economic trends uncontrolled by anyone". Going further, he then continues, saying that the European community in fact helps "... the state survive, by providing a modicum of predictability and a variety of rewards ... [it has] strengthened the nation-state's capacity to act at home and abroad."<sup>21</sup>

A well argued and much more up-to-date assessment of the situation as it has evolved until the year 2000 AD considers future prospects as well concluding that: "As the source of order and basis of governance, the state will remain in the future as effective, and will be as essential, as it has ever been."<sup>22</sup>

It goes without saying that we need not commit ourselves in absolute or unqualified terms to any particular projection about the long-term prospects of the nation-state or for that matter of any other form of political association. What can - and, in the light of the evidence available today, should - be clearly and unhesitatingly said is that Globalization, thus far, has not brought about the demise of the nation-state - whether in Europe or elsewhere. And, although the situation would undoubtedly continue to evolve, and in perhaps unpredictable ways too, it is not likely that the existence of either the nation-state or of the principle of sovereignty will, in the foreseeable future, be in jeopardy.

#### IV. GLOBALIZATION AND THE NATION-STATE IN THE MUSLIM WORLD: A BIRD'S EYE-VIEW

What has been said above about the durability of the nation-state, despite the fact that it has had to undergo many changes, in the Age of Globalization may - in very general terms - be said to apply to the nation-state in the Muslim World as well.

However, a number of factors - some of which are traceable to earlier phases in history - have together rendered the nation-state in the Muslim World generally weaker and more vulnerable to penetration, manipulation and domination: not only by super powers and middle range states, but also by Trans-National Companies and other global forces.

1. One of the said factors is that the legitimacy of the nation-state in the Muslim World has, from the very beginning, been challenged - and continues to be challenged - on ideological grounds, and from several different angles. Thus from a general Islamic (not necessarily radical Islamist) point of view, nationalism and the nation-state having been introduced from outside, continue to be widely regarded throughout the Muslim World, as artificial and divisive foreign implants *vis-à-vis* the deep rooted traditional bonds of the *Umma* and universal Muslim solidarity. The fact that, true to their European origins, nationalism and the nation-state in the Muslim World tend to be secular to a greater or lesser extent, has in many cases accentuated the schism.<sup>23</sup>

Nationalism was however to a large extent legitimized throughout the Muslim World as a result of the involvement of numerous groups and individuals, across ethnic and religious boundaries, in the struggle for independence from colonial (non-Muslim) rule, which, for many Muslims, meant that the said struggle was a form of *jihād*.<sup>24</sup>

Faced, in the Middle East for example, by a situation after independence where secular - sometimes radically secular - Turkish or Arab nationalists emerged as ruling elites and dominant groups, other communities which



had whole heartedly thrown their weight behind the movements for independence, then felt that they had to continue the struggle for the independence of their particular, non-Arab or non-Turkish communities against what they then perceived, also on secular nationalist basis, as "internal colonialism".<sup>25</sup> The Kurds in Turkey and Iraq and the Berbers in Morocco and Algeria are clear examples of this position. As Muslims and full-fledged-often leading or ruling - members of the *Umma* they had, for centuries, enjoyed remarkably harmonious and fraternal relations with their respective Turkish, Arab and other neighbours and fellow Muslims. As members of different nationalities in a predominantly secular post-independence era however, they - in general - continue fighting for objectives, which vary from seeking official recognition of a particular language or cultural heritage, through regional autonomy to self-determination, separation and complete independence.

Another ideological challenge to the legitimacy of the nation-state in the Muslim World and elsewhere has been (it is no longer a great force) that of the Marxists. For these, national independence and the national revolution in general, though important elements in the global anti-imperialist struggle are, at best, stepping stones on the long and arduous road which Marxists maintained would eventually lead to the overthrow of world capitalism (along with its agents and lackies at the national level), the victory of the international proletarian revolution and - ultimately - the establishment of communism: not bourgeois nationalism. For this was bound to betray the proletariat and hinder the progress of mankind to what Marxists perceived was the final liberation of man.

2. Ideological disputations apart, the legitimacy of the nation-state in the post-independence Muslim World in general seems to have been diminished in consequence, mainly, of its own failure to deliver. For, with a few exceptions - some owing to the abundance of natural resources developed and managed by Trans-National Corporations rather than of local ingenuity in management and development - the nation-states of the Muslim World (often oppressive, incompetent and corrupt at the same time) have not been remarkably successful either in the administration of internal matters, or in the management of external affairs. A lot can be said by way of elaboration and illustration of this point. Suffice it to note in this brief statement on a complex and many-sided subject that - despite the teeming millions of inhabitants and the abundant natural resources of the Muslim World - not a single Muslim nation-state figures among the advanced countries of the world.

Not surprisingly therefore the performance of Muslim nation-states in the arena of international affairs - even in connection with such universally recognized issues of general Muslim concern as Palestine, Kashmir and Muslim minorities around the globe - continues to be almost unbelievably poor and puerile.

3. The situation is rendered even worse as a result of the fact that Muslim nation-states, though they obviously need the support and assistance of each other and over a wide range of vitally important issues, do not only fail to cooperate with each other, to the detriment of them all; some actually attack and fight each other. And this sometimes for reasons of their own, some other times as a result of prodding and manipulation on the part of alien forces or interests which have no love or respect for any of them.

## V. SOME CONCLUDING REMARKS

It should be said, by way of conclusion, that a lot of deep and creative thinking as well as a lot of hard and selfless work, are needed in order to bring an end to the dismal situation in which the peoples and nation-states of the Muslim World are ensnared today, so as to establish a new Muslim World order worthy of the peoples and the states of the *Umma*. Among the many issues that need to be explored in depth, the following may be worthy of some special consideration:

1. The need for acquiring a clear and profound understanding of Globalization as well as of the many other forces that govern the world and make it what it is today.
2. The need to understand that whether we will benefit from Globalization or be harmed by its negative aspects depends on us: our wills and the choices we make.
3. The need, throughout the Muslim world, for the establishment of good governance - including, especially, effective participation, transparency, accountability, efficiency and, above all, respect for Human Rights and the rule of law.
4. The need for rapid and sustainable development: human, economic, scientific and technological including, especially, information technology. The point has often and quite rightly been made (by H.E. the Prime Minister of Malaysia, among others) that it was a most regrettable and damaging fact that the Muslim World missed the Industrial Revolution; and that it would be little less than tragic if the Muslim World were to miss out on the ongoing revolution of information technology as well.
5. The need for well thought out and continued cooperation with Muslim and non-Muslim peoples and states who are equally committed to the cause of creating a better future for mankind the world over.

It is needless to say that any contribution to the revival of the *Umma* along such lines would constitute an act of the highest moral worth, in traditional Islamic terminology: a true *jihad* indeed.

## END NOTES

- <sup>1</sup> Ali A. Mazrui: *Globalization - Homogenization or Hegemonization*. In *The American Journal of Islamic Social Sciences*, vol 15, fall 1998, no.3, p.1.
- <sup>2</sup> Anthony Giddens: *Runaway World - How Globalization Is Reshaping Our Lives*, London, 1999, pp. 9-10.
- <sup>3</sup> Ibid, pp 36-66 and Malcolm Waters: *Globalization*, London, 1995, p 124 f.f.
- <sup>4</sup> Citing *The Economist* (4/4/59) and The OED, 1989 s.v. global, Waters states that although the word 'global' is over 400 years old the common usage of such derivatives as 'globalize' and 'globalization' did not begin until about 1960; and in 1961 Webster became the first major dictionary to offer definitions of globalism and globalization. C.f. Waters, op. cit. p 2.
- <sup>5</sup> John Bayles and Steve Smith (eds.): *The Globalization of World Politics*, Oxford, 1997, p 14.
- <sup>6</sup> Eric Hobsbawm: *The Future of the State*, in Cynthia Hewitt de Alcantara (ed): *Social Futures, Global Visions* (Blackwell, Oxford, 1996) pp 55-59 and Baylis and Smith, op.cit., pp 19-21.
- <sup>7</sup> See, for example, the present writer's *Al-Islam wa'l qawmiyya fi'l sahrq al-awsat (Hiiwar, Beirut and Hadarat al-Islam, Damascus) 1963; and The Development of Fiqh in the Modern Muslim World*, Kuala Lumpur, 1996.
- <sup>8</sup> David Held: *Political Theory and the Modern State* (Blackwell, Oxford, 1995), pp 230-233, also Waters, op.cit, p 96 f.f.
- <sup>9</sup> Kenichi Ohmae: *The End of the Nation State - The Rise of Regional Economies* (London, 1996), p 12.
- <sup>10</sup> Baylis and Smith, op. cit, p 21. Also, the present writer's: *Bayn al-asala wal-taba'iyya* (Abu Dhabi, 1975 and Khartoum, 1978) and *The Role of Policy-Makers in Formulating and Defining the Relationship Between Media and Cultural Identity in The Aab World*, In *Dirasat Ifriqiyya*, no.8, Khartoum, 1991.
- <sup>11</sup> Hence, for example, the heated nation-wide debates which took place in Egypt throughout the summer months of this year, 2001, especially in connection with the question of dual nationality and its implications for national security. The Supreme Court's decision, taken towards the end of August, whereby the membership in Parliament of a certain businessman has been declared null and void because of his dual (French-Egyptian) nationality, is likely to keep the controversy alive for at least several months to come. Cf: <http://www.asharqalawsat.com/pcdaily/28-08-2001/leader/9.html>. Also, al-Ahram, <http://www.ahram.org.cg/arab/ahram/2001/9/5/OPIN3.htm>.
- <sup>12</sup> James Petras: *The New Cultural Domination By The Media*, published in Majid Rahnema and Victoria Bawtree (eds): *The Post-Development Reader*, Zed Books, London and New Jersey, 1997, Third impression, 2001, pp. 182 - 189.
- <sup>13</sup> Waters, op.cit.pp 103-106.
- <sup>14</sup> David Held, op. cit, p 229 f.f.
- <sup>15</sup> A. Cassese: *Violence and Law in the Modern Age* (Cambridge, Polity Press, 1988) p 132 quoted in David Held, p 234.
- <sup>16</sup> Ibid.

- <sup>17</sup> F. Capotori: *Human Rights - the hard way towards universality*. In R.S.J. Macdonald and D.M. Johnson (eds.): *The Structure and Process of International Law*. The Hague, 1983, quoted in Held, p 235.
- <sup>18</sup> Wil Verwey: *Legality of humanitarian intervention after the cold war*. In E.Lerris: *The Challenges to Intervene - A New Role for the United Nations?* Uppsala, Sweden, 1992, quoted in O.Ramsbotham and T. Woodhouse: *Humanitarian Intervention in Contemporary Conflict*. (Cambridge, Polity Press, 1996), p 3.
- <sup>19</sup> Geoffrey Roberts QC: *Crimes Against Humanity - The Struggle For Global Justice* (London, The Penguin Press, 1999), p 347.
- <sup>20</sup> David Held: *Political Theory and the Modern State* (Blackwell, Oxford, 1995) p 233.
- <sup>21</sup> S. Hoffman: *Reflections on the nation-state in Western Europe today*. Journal of Common Market Studies, XXI (1 and 2) quoted in David Held, op.cit, p 233.
- <sup>22</sup> Martin Wolf of the *Financial Times*: "Will the Nation-State Survive Globalization?". In *Foreign Affairs*, January/February 2001, p 190.
- <sup>23</sup> Some of these themes have been discussed in the publications cited in footnote 8 above.
- <sup>24</sup> It is interesting to note in this connection that, in the Arab parts of the Muslim World, the term "*al-jihad al-watani*" (ie national *jihad*) was widely used; Habib Bourgibe of Tunisia, by no means an Islamist, was designated "*al-Mujahid al-akbar*"; even Kemal Ataturk had the specifically Islamic title "Ghazi" conferred on him while, in the Sudan, the memoirs of Sayyid 'Abd al-Rahman al-Mahdi, for long the champion of national independence, were published by his grandson, Sayyid al-Sadiq, with the title *jihad fi sabil al-istiqlal* (ie *jihad* for independence).
- <sup>25</sup> This is the term used in M. Hechter's well known study *Internal Colonialism: The Celtic Fringe in British National Development 1536-1966* (London, Routledge and Kegan Paul), 1975.

# **GLOBALIZATION AND ITS IMPACT ON INTERNATIONAL POLITICS: GENERAL OBSERVATIONS**

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## **INTRODUCTION**

Globalization process is ultimately a power driven phenomena and reflects state-centric approaches to international politics. Its impact on world politics therefore is better analyzed by an analytical tool that is state-centric and places emphasis on power relations in international politics. This paper examines the correlation between globalization as a process and international politics on two levels. First, it focuses on what globalization process involves. Second, it looks at the impact of globalization process on international politics. This study maintains that power relations cannot be downplayed in analysis of impact of globalization on international politics. Structural realist analytical model is employed in evaluating the impact of globalization process on international politics. The paper, therefore, concludes that globalization process right from its kick off<sup>1</sup> until its maturation is influenced by dominant power relations and subsequently is the expression of dominant power structure in international politics. Globalization process at the behest of world dominant power(s), therefore, contributes little to ameliorate political and economic polarization characterizing international politics.

## PART I

### A. GLOBALIZATION: A COCEPTUAL ANALYSIS

Globalization has been defined in many ways with each definition emphasizing one dimension of human affairs. It has been defined “as action at a distant”, “time-space compression”, “accelerating interdependence”, “a shrinking world”, etc.<sup>2</sup> This lack of precision is due to the fact that it is difficult to denote in concrete terms what globalization really is. Some academics, therefore, have argued that globalization trends could be best described by such terms as internationalization or regionalization.<sup>3</sup> However, a closer look at globalization process for understanding real nature of the concept is helpful. Thomas L. Friedman, New York Times Foreign Affairs Columnist, in his comparative analysis of Cold War and post-Cold War international system argues that the latter substituted the former but the latter is now substituted by globalization systems: “the integration of markets, finance, and technologies in a way that is shrinking the world from a size medium to a size small and enabling each of us to reach around the world further, faster, and cheaper than ever before”.<sup>4</sup> According to Ulrich Beck globalization “denotes the processes through which sovereign states are criss-crossed and undermined by transnational actors with varying prospects of power, orientations, identities and networks”.<sup>5</sup>

Moreover, terms globalization, globalism and globality are often used interchangeably. However, they are not identical. Beck distinguishes globalization from globality and globalism. Such a distinction, according to him, has implications for international relations vis-à-vis the impact of globalization on international politics. Globalism denotes dominance of world market or global economic trends in shaping national policies. States responds to global economic trends and hence economic forces and priorities guide and direct state policies. States react to dominant world market. The response is either positive/affirmative (e.g. abolition of trade barriers/reduction of tariffs) or negative (c.g. adoption of various kinds of protectionist policies). Beck’s analysis of globalism indicates that despite state’s policies being reactionary, dominant world market may not have the capacity to influence policies of dominant state(s). On the contrary strong state(s) would have the ability to influence world market.

However, globality in Beck’s view denotes the existence of a ‘world society’: “a totality of social relationship which are not integrated or determined (determinable) by national-state politics”.<sup>6</sup> This implies greater interdependency and not integration among the peoples of diverse cultures, ideologies, religions and regions. Greater interdependency presupposes transnational activities ranging from production of consumer goods, support for human rights, struggle against environmental degradation,

wars etc. State and non-state entities across national borders collaborate on almost all issues. "Globality means that from now on nothing which happens on our planet is only a limited local event; all inventions, victories and catastrophes affect the whole world, and we must reorient and reorganize our lives and actions, our organizations and institutions, along a local-global axis".<sup>7</sup> Again Beck would concur with the view that globality, like globalism, is guided by preferences of dominant state(s).

In contrast to globality, globalization process would generate complex network of various types of transnational institutions and regimes. Such a complex network of supranational entities establishes multi-dimensional links between peoples of diverse cultures and hence interstate borders becomes blurred. As a result some sort of cultural, social and institutional homogeneity occurs. Globalization becomes matured when such a complex of networks of social relationships have been profoundly established over extended space/area and perpetuated over long period of time. In this context, globalization is a little advanced or matured from of globality and dominant state(s) could have directed globalization process throughout its various stages. Beck's analysis suggests that one way to measure its maturity is the capability of the complex network of supranational entities to become strong enough to withstand the tide of national decisional latitude.

Globalization, according to George Modelski, is "the process by which a number of historical world societies were brought together into one global system".<sup>8</sup> Unlike Beck, Modelski, however, argues that the nature and shape of the world system resulting from such a process constitutes the core of debate among writers on inter-civilizational dialogue, interdependency theorists, hegemonic theorists or scholars committed to analyze general patterns of relations among numerous units of world politics. David Held et al. throw some light on the type of world system brought about by globalization. It is noteworthy that Held's conceptualization is rather comprehensive than that of others. Held and colleagues view globalization as "a process (or set of processes) which embodies a transformation in the spatial organization of social relations and transactions—assessed in terms of their extensity, intensity, velocity and impact—generating transcontinental or interregional flows and networks of activity, interaction and the exercise of power".<sup>9</sup>

Above definitions have few common properties: (1) that globalization is both a process and the ultimate result of the process; (2) that they do not make reference to forces and dynamics involved in creating the globalized space; (3) they do not include answers to questions such as: are these complex linkages consensual; formed by all states through consensus or manifestations of preferences of strong states?; and (4) that they do not categorically point out that globalization underpins

realization of some higher objectives or national interest and is more of a process deliberately promoted to ensure creation of conditions conducive to attainment of national interest. Notwithstanding these, these authors believe military and economic instruments of statecraft are invariably employed to bring about globalization. Most of academic heritage on globalization is scanty and often lacks detailed discussion so that one can develop an imaginary view of global conditions brought about by globalization process. Held's analysis, however, provides a breakthrough. Held's analytical framework for globalization is capable of projecting an imaginary vision of world resulting from globalization process. Held's approach is, therefore, comprehensive and provides fruitful understanding of steps and components of globalization process. Let's elaborate.

In Held and colleagues' view globalization as a process builds upon functionalist theory that economic interconnectedness or interdependence spills over to social and political dimensions of relations. The above statement is intuitively supported by Held's conviction that localization, nationalization, regionalization and internationalization are convenient steps, not barriers toward globalization.<sup>10</sup> None of the above, though spatially delimited processes, could suggest genuine globalization as they are socially restricted developments and the major features of globalization cannot be observed in either one of them. Given Held's view, globalization is therefore a process being evolved and has not yet been fully matured. Up to this point of modern history, fundamental steps short of large scale globalization are being taken. However, Held's analytical framework, discussed below, is unique in that it could provide "the basis for both a 'quantitative' and a 'qualitative' assessment of historical patterns of globalization".<sup>11</sup>

Held and colleagues suggest a 'bi-model' or 'two-level' analytical framework for assessment of globalization process. The first level of his model provides theoretical basis for understanding when a specific historical phase can be called globalized conditions. The second level of his model provides operational basis for realization of the first model. In other words stability of the first model is contingent upon the second model as the latter facilitates full operationalization of the former. The elements of first model can bear fruits only if the elements of the second model are correctly developed and rightly placed. The four principles of Held's first level analytical framework are: (1) the extensity of global network, (2) the intensity of global interconnectedness, (3) the velocity of global flows, and (4) the impact propensity of global interconnectedness.<sup>12</sup> Held believes that this four-fold framework is a useful analytical tool to distinguish globalization from other types of processes that could imply some degree of interconnectedness. Moreover, the four elements of Held's second level analytical framework are: (1) infrastructures, (2) institutionalization, (3) stratification, and (4) modes of interactions.<sup>13</sup> It is interesting to note that 'infrastructures'



constitute the core of Held's second level analytical model. Therefore, one is tempted to argue that 'infrastructures' provides basis for Held's bi-model analytical framework. Let's elaborate further each element of Held's bi-model analytical framework.

Given the centrality of infrastructures in creation of global conditions and process of globalization, the issue of 'definer' of the infrastructures acquires central focus. Knowledge of the definer of infrastructures is helpful for two reasons: (1) it assists analysts to know the nature of globalized space better and (2) it makes the task of searching analytical tools for analysis of impact of globalization on international politics easy. Held however does not make reference to definer of infrastructures. This, therefore, constitutes a weak link of Held's analytical framework and it at least has one important implication: that Held's analytical framework may explain what globalization is and what it involves, but it does not help to analyze its impact on international politics. The author of this study believes that by stressing definer of infrastructures, Held's analytical framework will become more useful. It would allow proponents and opponents of globalization to see whether globalization is a power driven phenomena and its processes manipulated by dominant states?

Relevant in this context, therefore, is a search for analytical framework for assessing the impact of globalization on international politics. Definer of infrastructures of globalization points out the existence of power relations among all those affected by and affecting globalization process. It also denotes that globalization process proceeds in the context of a hierarchical structure with the most powerful state(s) behaving as the definer of infrastructures of globalization. Therefore, globalization becomes a project designed and promoted by dominant power(s). A convenient analytical framework that complements and assists Held's analytical framework to explain impact of globalization on international politics is structural realist analytical model. Globalization process occurring in the context of hierarchical world structure resembles structural realist cliché: 'power structure or polarity of the system'. Structural realist analytical model for impact of globalization is discussed in Section B of Part I. Therefore, in pages below references to definer of infrastructures of globalization is stressed in view of better understanding of nature of globalized space.

In Held's first level model, extensity of global network means stretching of political, social and political activities across the frontiers of global network-regularized patterns of interactions between major centers of powers or hubs of economic, military and political decisions. Growing magnitude of interactions on a regular not occasional or random basis indicates the extensity of interdependence among the various centers of powers. Velocity of the flow-movement of physical materials across space-can be measured by the degree of diffusion of

ideas and spread of goods across particular space. Ultimately, such kinds of relationship between the various centers of powers would make them mutually vulnerable to any type of development occurring in a given center or hub of activity. Currents and forces that describe a specific historical phase as a global condition need to be identified. At least four types of currents and forces of global conditions indicating influences between mutually vulnerable centers of activities could be identified: (1) decisional, (2) institutional, (3) distributive and (4) structural influences.

According to Held, the extensity, intensity, velocity and the impact propensity of networks of global interconnectedness cannot function desirably unless facilitated by some other institutions. These institutions are essential prerequisites for operationalization of the first level analytical model and hence creation of global conditions. These essential institutions constitute various aspects of Held's second level analytical model. Therefore, according to him, infrastructures refer to all those facilities that can facilitate global networks, flows and relations. Such facilities include regulative, legal, scientific institutions and regimes, norms and procedures as well as physical facilities such as ports, highways, and no barriers for smooth transfer of goods and commodities. Infrastructures "mediate flows and connectivity ... [and] influence the overall level of interaction capacity in every sector and thus the potential magnitude of global interconnectedness".<sup>14</sup> Crude infrastructural elements over time become patterned and regular. When interactions are regularized, institutionalization process takes off. The players behave in accordance to established rules, norms or regimes, which enhances the degree of predictability in interactions. Held argues institutionalization breed's power. He defines power as "the capacity of social agents, agencies and institutions to maintain or transform their circumstances, social or physical; and it concerns the resources which underpin this capacity and the forces that shape and influence its exercise".<sup>15</sup> Power, therefore, is being exercised by the numerous components primarily states involved in the process of globalization. Obviously, some components could have more power while others less. Ironically, he argues, globalization does not eliminate such a power structure or to use Held's words, 'patterns of stratification' within globalized space. Globalization can only transform the organization, distribution and exercise of power. If patterns of stratification refer to some type of rigid polarity and not mere manipulation and maneuverings among interacting components of globalized space, then transformation that globalization bring within the organization, distribution and exercise of power could not mean liquidation of powers of the major states or bloc leader in favor of less powerful states. In this regard Held notes:

Globalization transforms the organization, distribution and exercise of power. In this respect, globalization in different epochs may be associated with distinctive patterns of global stratification. In

mapping historical form of globalization, specific attention needs to be paid to *patterns of stratification*. In this context, stratification has both a social and spatial dimension: hierarchy and unevenness respectively. Hierarchy refers to asymmetries in control of access to and enmeshment in global networks and infrastructures, while unevenness denotes the asymmetrical effects of processes of globalization on the life chances and well being of peoples, classes, ethnic groupings and the sexes. These categories provide a mechanism for identifying the distinctive relations of global domination and control in different historical periods.<sup>16</sup>

Specific type of pattern of stratification and the number of components involved in defining such a pattern of stratification will inform the nature of global space. Put differently, the nature of interactions in globalized space-hegemonic, cooperative, conflictual, and competitive-depends on the number of definer(s) of patterns of stratification. The nature of interaction or modes of interaction in turn depends on the instruments of powers-military, diplomacy, economic, ideology, etc.-available as well as the willingness by the definer of patterns of interaction to employ them.

It is noteworthy to mention that among numerous theories on globalization, interdependence school shares numerous common features with globalization. Yet one is tempted to argue that globalization process denotes deeper interconnectedness than 'complex interdependence' suggested by proponents of interdependence school. R. Keohane and Joseph Nye the most outspoken advocates of complex interdependence, inadvertently argue that state-centric paradigm has become inadequate. Creation of multiple-intergovernmental, trans-governmental and transnational-channels have drawn states closer to the extent that they have become actors in their own rights. Moreover, politically states have become vulnerable to distant events. National interests have become diffused with many institutions other than political elites involved in its formulation and determining it. States can no longer use military force in issue area where states have become vulnerable and would be adversely affected if a disturbance of any sort takes place. Regime transformation as well as preservation of status quo on global level has become contingent upon the nature of interaction among these multiple channels of interaction.<sup>17</sup> One could take points with Koehane and Nye, and all the above assumptions. Complex interdependence does not suggest absence of definer of infrastructures. On the contrary, complex interdependence stresses economic globalization: transnational organizations of economic activities. Globalization process on the other hand suggests political, institutional, legal, cultural and economic homogeneity. In this context, economic globalization may be first ladder with spill over effects in the whole globalization process. And this whole process, so argue structural realists, is influenced by dominant pole(s) of international system.

Therefore, conceptual analysis of globalization as a process, discussed above, to use David Held and Anthony McGrew's conceptualization, has three dimensions: (1) material, (2) spatio-temporal and (3) cognitive. Material aspect of globalization refers to transnational flow of capitals, trade, information, people, and values. Spatio-temporal aspect of globalization refers to a "significant shift in the spatial reach of social action and organization towards the interregional and intercontinental scale". Geographical space or distance shrinks and no longer becomes impediment to numerous kinds of interactions. Cognitive aspect of globalization indicates that people and communities are aware about such globalizing trends. They know that all transnational activities as well as occurrences in one part of the globe have impact on the developments in their local vicinity.<sup>18</sup> A fourth dimension of globalization-diffusion of popular culture or cultural homogeneity-could be added to David Held and Anthony McGrew three-dimensional view of globalization. Values, norms, institutions, life styles advocated by one civilization rapidly expand over the shrinking space. If one goes by these tangible and intangible elements of the scale in understanding globalization, then its ramifications for international politics and interstate relations are tremendous.

Throughout his analysis of globalization process, Friedman advances an important thesis: globalization has its benefits and downsides, but the main beneficiary of this process is the powerful rich nations of the North. Neo-realists would concur with Friedman on that Cold War and globalization systems share one common denominator: world politics is governed by existing power structure. Structural realist analytical model, discussed below, for analysis of the impact of globalization on international politics builds upon this common denominator.

## **B. STRUCTURAL REALIST ANALYTICAL MODEL FOR IMPACT OF GLOBALIZATION**

Granted globalization process, the real question therefore is not that events, catastrophes and other distant developments have impact on and affect every single individual, group and nation. The real issue however seems to be on whose terms such occurrences manifest. Answer to this question would assist practitioners and academics alike to know that the nature of international system brought about as a result of globalization process and that globalization process is influenced by existing power relations. Given centrality of power relations to analysis of impact of globalization process, structural realist analytical model therefore has the capacity to explain its impact on international politics. Therefore, a convenient starting point for discussing structural

realist analytical model for impact of globalization on international politics would be to look at definition of international system. However, power being central to structural realism needs to be defined. Therefore, prior to analysis of structural realist analytical model, some fundamental observations concerning power are in order.

Evan Laurd defines power, as “the capacity to secure desired political results”. According to Hans J. Morgenthau, power generally means men’s (nations’) control over the minds and actions of other men (nations).<sup>19</sup> Some others have defined power as one’s ability to make others do what others would not do otherwise. Above definitions of power suggest that power refers to all those capabilities possessed by a person or nation that enables the individual or nation to attain the desired objectives. Therefore, power, viewed as capabilities, exercised by a nation would take multiple forms. In other words, instruments of power become many. The conception of power, therefore, is broadened to include factors such as exercise of military force, political power, national economic strength, diplomatic expertise/skills, technological know-how, natural resources, membership of international global and regional forums and organizations and other instruments that could enable a nation to compel conformity of actions of others with its wishes. Given the notion of power above, national power is, therefore, relative and distributed unevenly; some possessing more than others. However, often considerable few nations possess more capabilities and dominate international politics. Nations controlling globalization process are, therefore, states possessing more capabilities than the rest of the members of world community.

International system is defined as “a set of well-defined and long-established ‘rules of the game’ governing states and how states treat each other”.<sup>20</sup> Some academics have substituted international system by world system or global political system. According to them world system is broad and includes “numerous more or less autonomous actors interacting in a patterned ways to influence one another”.<sup>21</sup> Arguments above have two common features: (1) world system consists of numerous constituent elements and (2) interaction among them is patterned; they interact in accordance to well-defined and long-established rules of the game. The above two components of world system are closely interrelated. Globalization affects these interlocking components of and in turn is affected by the nature of the world system. Structuralism and particularly political structuralism or neo-realist alternatively known as structural realist theorem proceeds on assumption that great power(s) relations and distribution of power among them effectively influences and guides the process of globalization.

Structural realism provides deeper insight about the 'definer' of 'infrastructures' of globalization. Therefore, if structural realism proceeds on the assumption that great power relations and distribution of power among them effectively influences and guides the process of globalization, then it, from the above assumption, follows that the 'operative balance of power system' affects the 'infrastructures' of globalization in Held's second analytical model (see Section A of Part I) or 'patterned ways', 'long-established rules of the game' (in definitions of international system above). Correlation between 'operative balance of power system' and the 'infrastructures' suggests that globalization could result in neo-imperialism and hence its significance for world politics-defined as the way human beings as individuals, groups (i.e. states and non state actors) strive to advance certain collective or otherwise values in opposition to those of others-becomes tremendously many. Let's discuss the structural realist analytical model for the impact of globalization to clarify ambiguities around the above assumptions.

Structural realism adheres to all original assumptions of traditional realism; such as state-centric international order, state as unitary rational actor and anarchic nature of the international system. However, responding to growing role emerging of interdependent world resulting from growing number of functional international institutions and regimes, original realism was modified and hence the term neorealism or structural realism is used to represent this modified version of traditional realism. Therefore, structural realism in the main is based on assumptions below: (1) the world is divided into major/super, middle/regional and small/national powers; (2) states are no longer primary actors in international affairs; (3) that the distribution of power within the international system influences the making of policies of states; (4) there exists power structure within the international system. This means that international system is composed of numerous autonomous major powers or centers of powers alternatively called polarity of the system; (5) world politics is a self-help system; a semi-organized anarchy, lacking mechanisms of controlling moral consensus and socially sanctioned code of behavior and hence stability and order within such a system depends on the nature of interactions among the major powers; (6) there exists hegemonic tendency among every single pole of the system. Hegemony is understood as attempts at establishing political, economic, military domination or leadership by a state over the whole world or part of it. Hence, hegemony could take as many from as the number of poles of the system. The numerous centers of powers, however, attempt to establish their respective hegemonic domination over the bloc of its spheres of influence. (7) Distribution of power among the numerous poles of the system can be either even or uneven (distribution of power as such is called

balance of power). When distribution is relatively even, the power structure is called either bipolar or multipolar, depending on the number of centers of powers constituting the power structure. However, if the distribution of power is hierarchical, such a distribution favors only one power. This power located at the top of the hierarchy is variously called hegemon or preponderant power. Other major powers are ascribed second class status. It then follows that this predominant power or hegemon will attempt to establish hegemonic domination. (8) States may not only pursue aggrandizement of power viewed in military terms; they may also pursue other interests. By implication means of attaining these interests are therefore many. It therefore follows that (9) some degree of governance is essential in the realm of trade and dynamic growth. Numerous supranational economic regimes and institutions that coordinate economic activities among states and regulate international economic exchanges are essential. But they would effectively be influenced by existing core economic blocs; each with its center and periphery. Power relations among the numerous centers of powers of existing power structure within the international system influences activities and roles of and regulations and rules within such a transnational network. However, the most powerful state(s) would use such supranational organizations to establish their hegemony in economic sphere as they do in political sphere of international politics. By extension, dominant power(s) play effective role in maintaining both economic as well as political international order. In other words multilayered and multi-dimensional system of governance could exist but in every layer, a dominant power would exert influence in decision-making processes of its domain.<sup>22</sup>

Four basic yet interrelated themes are advanced through the above assumptions: (1) power structure; (2) definer(s) of rules of the game; (3) existence of hegemonic tendency by the major states constituting the power structure and (4) existence of supranational (multipurpose or single purpose) security and functional international institutions (organizations and regimes). This last theme advanced by structural realists suggests a significant departure from traditional realist position on international politics. It is expressive of the fact that structural realists incorporated some of the elements suggested by functionalists and interdependence theorists. For instance, they took into account transnational, importance of economic factors and non-state elements in international relations. Yet, they upheld the view that the functionalist and interdependency theorists assumption were still significantly affected by the first theme-international politics affected by existing power structure. By emphasizing power structure, structural realists broadened the scope of traditional realism. Yet they maintained all developments-

political, economic, social, and military—are the by-product or net-result of such a power structure in the world politics. Put differently, structural realists believe that the nature of power structure influences definition of patterns of relations on global scale and the destiny of all nations on the planet earth is shaped by one, two or few powerful state(s).

The power structure suggests existence of numerous poles or centers of powers. However, each single center has hegemonic tendency. The regimes and institutions that are established and being shaped within international system are, therefore, the result as well as reflection of the interests of these centers of powers. Hence procedural, institutional, functional, political, legal or economic developments that occur are determined by the nature of power relations of these centers. Notwithstanding this, the number of dominant centers of power could range between one, two or more than three. If it is one the international system is unipolar. The definer of the rules of the game is one state. If centers of powers are two the international system is bipolar. They dominate international relations globally as well as within their respective spheres of influence. If centers of powers are more than three the international system is multipolar and the concert of major powers determines the rules of the game both on global level as well as bloc level.

Given structural realist perspective on international relations, typifying post-Cold War international system into either of the above categories could be risky. It would be safe to argue that the post-Cold War international system is being defined. However, some general observable trends, specifically after the incidents of September 11, 2001 and the recent unilateral preemptive military action by the United States against Iraq, dominating international politics have surfaced. The trend in post-Cold War is that United States' behavior shows symptoms of preponderant power both in military as well as economic terms. The United States sidetracked the United Nations Security Council (UNSC), despite strong opposition from other permanent members of UNSC, in removing Saddam Hussein's regime in Iraq. Moreover, the United States has so far rejected any role for the world body in the post-Saddam Iraq. The United States, according to its Secretary of State Collin Powell, is even contemplating action against France for its opposition to the second Iraq War. In post-September 11 world, almost all nations are cooperating with Washington in crushing terrorism. Above all, Washington has shown the will and determination to act unilaterally as well as in concert in any situation that is perceived detrimental to the interests of the United States and world security. The United States believes that it needs to be consulted in arrangements



of any kind anywhere and mostly all transactions concluded on Washington's terms. The reasons stated are simple: the United States is the most powerful nation on the planet earth. All these in a nutshell suggest strong hegemonic tendencies in the way the United States behave. However, this is not to suggest that the game among the permanent members of the United Nations Security Council is over.

Therefore, it is safe to conclude that a given power structure influences and guides the definition of the established rules of the game or the nature of a given international system. The definer of such rules of the game could be one state, two states or more than two states. The post-Cold War international system however leans towards unipolarity in which one power dominates definition of the rules of the game. Hence, according to structural realist analytical framework, the globalization process will be guided by the power structure. And the United States wields power in the post-Cold War international politics, the 'infrastructures' in Held's second analytical model, discussed above, essential for globalization process would therefore be primarily defined or at least in the main dominated by one dominant power. Major features of international politics in such a globalized world are discussed below.

## **PART II**

### **IMPACT OF GLOBALIZATION ON INTERNATIONAL POLITICS**

Analysis of the impact of globalization on international politics, viewed in terms of structural realist analytical model, may proceed on basis of one overriding assumption: state monopoly in international politics still prevails and manifestations of such a monopoly is even more observable if globalization discourse viewed in the context of existing power structure within the international system. Globalization process will further crystallize political and economic polarization. It naturally, therefore, follows that all processes-integration, interdependence, dependency and obviously globalization-take place within the major currents of workplan designed by the dominant pole(s) of that power structure. The term 'major currents of workplan' denotes flexibility inherent in structural realist analytical model. In this context, the model provides for development of institutions, regimes and rules in a specific area of international politics without participation of the dominant pole(s) of the power structure in so far they do not deviate from the major currents of control (i.e. do not run counter to the interests of dominant pole(s) of the system). Here, the structural realist

analytical model rebuts the functionalists, interdependence, system, or regime theorists' argument that huge amount of transnational activities are carried out neither by states nor require dominant powers participation.<sup>23</sup>

Moreover, flexibility also denotes that the model permits multi-level or multi-layer as well as multi-dimensional dominance or exercise of power. In other words multilayered system of governance-local, national, regional and global-is influenced by the operative power structure. A state can be a dominant global power or regionally influential bloc leader. It can also be economically, politically or militarily dominant. The whole world or a region could be sphere of influence of a state and that it can exert its influence because it is economically, militarily or political influential. Here, the model suggests that all interconnectedness and interdependences denoting globalizing tendencies resulting from functional integration are carried out under the tutelage of powers that are dominant globally or regionally. Thus, power is pervasive and penetrates all levels of globalization process and the existing power structure greatly influences all layers of Held's bi-model globalization process. Held's first level four-layer model consists of (1) the extensity of global network, (2) the intensity of global interconnectedness, (3) the velocity of global flows, and (4) the impact propensity of global interconnectedness. Held's second-level four layer model of globalization process consists of (1) infrastructures, (2) institutionalization, (3) stratification, and (4) modes of interactions.

Let's recapitulate the main thrust of Held's thesis, discussed in Section A of Part I of this paper, to show that globalization process is indeed the end result of prevalent power structure within international system. In Held's view, the globalization process kicks off with putting in place what he termed 'infrastructures': all those facilities that can facilitate global networks, flows and relations such as regulative, legal, scientific institutions and regimes, norms and procedures. Operationalization of all other steps as well as creations of globalized conditions are contingent upon infrastructures. Crude infrastructural elements over time become patterned and regular. When interactions are regularized, institutionalization process takes off. The players behave in accordance to established rules, norms or regimes, which enhances the degree of predictability in interactions. Institutionalization, Held argues, breeds power. He defines power as "the capacity of social agents, agencies and institutions to maintain or transform their circumstances, social or physical; and it concerns the resources which underpin this capacity and the forces that shape and influence its exercise. Power, therefore, is being exercised by the numerous components primarily states involved in the process of globalization. Obviously, some components could have more power while others less. Ironically, he argues, globalization

does not eliminate such a power structure or to use Held's words, 'patterns of stratification' within global space. Globalization can only transform the organization, distribution and exercise of power. Patterns of stratification refers to some type of rigid polarity and not mere manipulation and maneuverings among interacting components of globalized space, then transformation that globalization brings within the organization, distribution and exercise of power could not mean liquidation of powers of the major or block leader in favor of less powerful states. In other words, the type of power structure advocated by structural realist analytical model may not disappear. This implies that definer of infrastructures is not collectivity of all members of the global space-small, major and bloc leader or transnational-but either one preponderant power or two superpowers or few major powers.

Therefore, the structural realist analytical framework suggests that despite cultural heterogeneity, religious pluralism and distinctive historical backgrounds of peoples in globalized space, the infrastructures upon which globalization is erected is characterized by homogeneity. All institutions, regimes, norms, values, rules and procedures everywhere throughout the globalized space are the same and uniform. However, infrastructural uniformity as such has not been the result of intercultural or inter-civilizational dialogue. The argument that infrastructures are expressions of preferences of dominant pole(s) of the international system is congruent with Michael Mann's view. Mann argues that all global institutions, rules and regulatory regimes are West Northern dominated. It is Northern citizens and not commodity that rules multilayer of interactions.<sup>24</sup> Therefore, consequences of globalization process for international politics become tremendously many. However, prior to further discussion of impact of globalization process on international politics, it is worthy to note that structural realist model also provides for often small scale systemic disturbances between small powers and major powers, regional powers and major powers and among major powers. Disturbances as such are inevitable due to simple fact that policies of the major powers dominating international affairs and guiding globalization process would adversely affect the core values of other nations, which, obviously, provides strong impetus for development of effective nationalism (discussed later).

Globalization has transformed essential edifice of international system created in Westphalia in 1648. The Westphalian model recognizes no form of-physical, political, cultural, etc.-outside penetration into political domains of other states. According to the Westphalian model, states must respect the principles of (1) sovereign and sovereign equality and (2) territorial integrity in their relations. The former denotes

overarching role of the governing elites in management of citizens' affairs of a given territorial entity. Management of peoples' daily lives has become to be the sole prerogative of the government in that territory. Moreover, territorial occupation of some part or the whole of states amounts to violation of sacred human values. By 1990s this Westphalian Model of nation-states has become truly global in the sense that colonialism has almost come to an end.

While Westphalian order has become truly global, yet new dynamics have emerged to diminish national sovereignty both in form and character. This is not to suggest, as Susan Strange argues that states and variation in their power status have become irrelevant.<sup>25</sup> The emphasis is to investigate the nature and to what degree dominant pole(s) of power structure within international system have managed to control decision-making processes in other nations. Diminution of exercise of sovereignty, therefore, must not be understood in the sense that states would fade as predominant actors in international politics. States will be predominant actors, but constrained by rules of game of *realpolitik*. Strong center-periphery relationship would characterize relations and exchanges among them. The Westphalian model was invoked as an attempt to put an end at once and for all times to patterns of imperialist quests by strong powers. The globalization process revives such an attempt by dominant pole(s) in contemporary international system, however, in its modified form: neo-imperialism/neo-colonialism. Globalization has unleashed forces that recognizes no limits and penetrates every corner of public and societal institutions. State could maintain its discrete geographical identity, but it has to make concessions in its exercise of sovereignty. Yet the notion of territorial integrity is waning through establishment of networks-functional and non-functional-at the behest of dominant center(s) of power. State sovereignty therefore has become a commodity shared by citizens and outsiders and the outsiders are basically the most powerful nation(s). State has lost monopoly over regulating the affairs of its citizens. States are no longer able to legislate for essential aspects of life at will. Ian Clark rightly pointed out that state is no longer barrier between domestic and international dynamics and the Great Divide-that international represents a field of political and economic forces distinct from the domestic-has been eroded by globalization.<sup>26</sup> State represented by its governing elite therefore has been reduced to something resembling 'coordinating points' between powerful pole(s) of international system and its domestic citizens. It has rather become a medium through which the two come into contact. However, in the process, according to structural model, domestic forces operate at the mercy of powerful international forces. States policies have become vulnerable and susceptible to rapid changes and developments beyond

its borders. It is not surprising to argue that globalization resulted in restructuring the world political map; a new restructured political map of the world will indeed reflect preferences of those pole(s) dominating process of globalization. Even in democracies, popularly elected political elites are pressured to share their power or decide under duress of some distant forces, despite being detrimental to the interests and welfare of their people. On the contrary, some states, particularly small nations, have virtually no ability to raise their concerns about the tide of distant impact on their welfare. Such views, even if raised, would fall on deaf ears as the tides of globalization are so strong to be defended or reversed.

The growth of international and transnational organizations and collectivities, from the UN and its specialized agencies to international pressure groups and social movements, has altered the form and dynamics of both state and civil society. The state has become a fragmented policy making arena, permeated by transnational networks (governmental and non governmental) as well as by domestic agencies and forces. Likewise, the extensive penetration of civil society by transnational forces has altered its form and dynamics. [And according to Structural realism, discussed earlier, the dominant power structure within the international system influences the transnational networks].<sup>27</sup>

According to structural realist model, the operative balance of power (leaning towards unipolarity) in the post-Cold War era provides potential strength behind waves of globalization. Hence, one dominant state tends to assume that it possesses legitimate right to penetrate at all levels of decision processes in national, societal and global levels. All public policies and societal choices therefore reflect the attitudes and interests of the dominant center of power. This is not only true about the small and regional powers. This is often true about the powers above the regional but not strong enough to challenge the lone dominant power. Thus, according to structural model, globalization process gave birth to neocolonialism; a new form of old colonialism. Held and McGrew note:

Decolonization clearly did not create a world of equally free states. The influence of Western commerce, trade and political organization outlived direct rule. Powerful national economic interests have often been able to sustain hegemonic positions over former colonial territories through the replacement of 'a visible presence of rule' with the invisible government of corporations, banks, and international organizations (the IMF and the World

Bank, for example). Furthermore, interlaced with this have been the sedimented interests and machinations of the major powers, jostling with each other for advantage, if not hegemonic status.<sup>28</sup>

Globalization process, according to structural realist analytical model, also projects crystallization of economic inequalities. Structural realist model suggests that presuming economic inequalities as such can be eradicated or even moderated through coordinated international intervention or any other mechanism is a categorical mistake. For inequality is inscribed in the very structure of world order and a global hierarchy of power is essentially based on national capabilities. In this context, globalization process leads to "a new mode of Western imperialism"<sup>29</sup> or neo-imperialism. This undermines or is dismissive of the view that there are growing patterns of interdependence between North and South. On the contrary, it confirms the proposition that there is emerging pattern of dependency; South becoming more dependent on North. To dislike of most advocates of integration approach and specifically neo-functionalists, formation of network of functional and economic transnational institutions hardly ameliorate negative effects of economic globalization. Contemporary trends on global scale confirm patterns of financial and economic activities predominantly remain captive of interests of dominant pole(s). "In effect, the governance of the world economy still remains reliant, especially in times of crisis, on the willingness of the most powerful state(s) to police the system-as the East Asian crash of 1997-8 demonstrated so dramatically. However, even in more stable times, it is the preferences and interests of the most economically powerful states, in practice the G7 governments, that take precedence".<sup>30</sup> Regimes and institutions governing linkages between separate national economies are manipulated by dominant states. Who decides on issues such as transition of economies of member of Organization for Economic Cooperation and Development (OECD) from industrial to post-industrial economic activities, global division of labor of economic activities and restructuring of patterns of economic relations on global scale? These are obviously reflection of preferences of powerful economies. The growing gap between North and South will widen. South will become more dependent on North. In globalized world, in which might trumps right, chances of growing conflicts among members of the world community become predictable. The clash between competing national interests is, therefore, resolved ultimately through exercise of power.

The negative impact of globalization viewed in terms of penetration by dominant power in the domestic affairs of others is two-fold: (1) effective local nationalism and (2) effective global resistance. On the

domestic front, anti globalization forces will feel closer. Nationalism links the state to forces against outside domination: "it describes both the complex cultural and psychological allegiance of individuals to particular national identities and communities, and the project of establishing a state in which a given nation [and not outsiders] is dominant".<sup>31</sup> At this level ideological, cultural, linguistic cleavages are mended, criss-crossed or even compromised. New sense of national identity stressing link between indigenous culture, geographical identity and political independence or freedom is forging. Such tendencies would result in negative reactions to even benevolent Western values such as democracy, improved standards of living, progress, development, no corruption, etc. However, in economic terms national economies will lean toward adoption of mercantilist (also known economic nationalism) policies. But, success of protectionist policies depends on the nature of interactions among predominant economic powers. There is a growing trend that poles of global power structure enjoying political, military and economic preponderance have better chances of prevailing in economic regime formation on global level. Mercantilist forces ultimately will surrender. They will become dependent. Economic problems will lead to political instability and may provide impetus for growth of local nationalism.

On global level nationalism manifests itself in the form of global movement resisting the hegemonic behavior of the sole superpower. A further repercussion of this negative globalization would be that the forces of local nationalism and those of global resistance would eventually be forced to collectively repulse the tides of globalization on terms acceptable to dominant pole(s). Possibly, cold-war like scenario in which the forces of local nationalism would be extensively used to weaken the dominant pole(s) of the system so that an order that squarely accommodates interests of the forces of global resistance is put in place. Cooperation between local and global forces of resistance, according to structural realist analytical model, will be based on the notion of national interests; subduing ideological, cultural or even religious differences. Globalization process viewed in terms of structural realist analytical model at this stage possesses yet another devastating challenge: derailment or de-crystallization of liberal or representative democracy in the Third World as well as threaten the unity of Western democratic world. If national interests, for instance, interlock France and the United States or Germany and Great Britain, into non-cooperation, then globalization process will certainly threaten the unity of Western democratic world. Moreover, democratization and development of viable civil society the world over would rather become a legitimizing means used by dominant pole(s) of the system. Fragile political leadership without grass root support will win no respect of the masses. Local

nationalist forces may claim greater respect to ideals of democracy but not democratization of their lands and institutions on terms of the dominant pole(s) of the system. Even resistance as such will be justified on democratic grounds. The prospect of culturally diverse and religiously pluralistic order diminishes. Formulation of rules of the game through democratic processes on the global level would seize to inform inter-cultural and inter-civilianizational dialogues.

## CONCLUSION

Globalization process unraveled challenges and opportunities. However, two challenges caused by globalization are outstanding. Globalization process has affected both the (1) field of international politics as an academic subject and (2) nationalism. Researches contemplating solutions to the problems above may consider suggestions below. It is often argued that the field of international politics requires fundamental reorientation and reinvention. Globalization have eroded the "Great Divide: that international represents a field of political and economic forces distinct from the domestic...."<sup>32</sup> Hence, traditional theoretical framework cannot explain the complex and expanding political, economic and cultural interdependences and interconnectedness generated in human affairs. The scientific community has yet to evolve a paradigm reflecting global or globalizing tendencies in human affairs. Much of the generalization and hypothesis building have certainly contributed to redefine the role of world politics and its status in relations to other dimensions of human life, one still observes stunning lack of conceptual clarity and theoretical frame of references that could provide adequate explanations about world events and occurrences.<sup>33</sup> The above discussion however suggests that central to theoretical reorientation and reinvention would be the role of power structure within the international system. Unless the role of operative balance of power stressed, theories would fail to provide adequate explanation of impacts new developments such as globalization process would impinge on international politics.

One alternative to diffuse forces of resistance and salvage the world from political and economic polarization is genuine crystallization of liberal democracy both on national as well as global scales. Democratization policy must guide every steps of globalization process. If democratization does not precede globalization and if the latter aims to crate a more balanced world order, then the two processes should progress symmetrically on national and international fronts. However, central to effective democratization process are: (1) socio-cultural identity based on respect for cultural, religious, ethnic and linguistic pluralism, (2) democratization



of decision-making processes and the willingness by powerful states to respect and accept the views of the less powerful states, (3) all decisions and activities must reflect collective interest and not the interests of powerful few, and (4) common structure of rights and duties in which every individual and state is treated with equality and justice.<sup>34</sup> Without genuine democratization, globalization process will always remain effective tool of neo-imperialism. Parallel procession of globalization and democratization processes, though difficult, may not be a project that cannot be realized. However, it has become an open challenge to dominant pole(s) of the world order to maintain the balance between national interests and forces of democratization.

## END NOTES

- <sup>1</sup> It is hard to trace the exact date of origin of globalization process. Though the term globalization process began to be used a decade after World War II, some academics have traced its origin to 19th and early 20th century intellectuals such as Saint-Simon (sociologist) and MacKinder's (geopolitical theorist) caliber. However, this study maintains its origin primarily to era of expanding political and economic interdependence that have been main feature of international politics since 1950s.
- <sup>2</sup> David Held and Anthony McGrew, "The Great Globalization Debate: An Introduction" in David Held & Anthony MacGrew (eds.), *The Global Transformations Reader: An Introduction to the Globalization Debate*, (USA & UK: Polity Press, 2000), p. 3.
- <sup>3</sup> For details see, *ibid.*, pp. 4-5.
- <sup>4</sup> Thomas L. Friedman, "Dueling Globalization", *Foreign Policy*, No. 116, Fall, 1999, P.110.
- <sup>5</sup> Ulrich Beck, "What is Globalization" in David Held & Anthony MacGrew, *op. cit.*, p. 101.
- <sup>6</sup> *Ibid.*, p. 101.
- <sup>7</sup> *Ibid.*, p. 102.
- <sup>8</sup> George Modelski, "Globalization" in David Held & Anthony MacGrew, *op. cit.*, p. 49.
- <sup>9</sup> David Held and et al., "Rethinking Globalization" in David Held & Anthony MacGrew, *op. cit.*, p. 55.
- <sup>10</sup> According to David Held et al. localization refers to consolidation of flows and networks within a specific locale. Nationalization refers to social relations and transactions that are developed within the framework of fixed territory. Regionalization can be denoted by a cluster of transactions, flows, networks and interactions between functional or geographical groupings of states or societies. Internationalization can refer to patterns of interaction and interconnectedness between two or more nation-states irrespective of their geographical location. For more information, see *ibid.*

- <sup>11</sup> Ibid., p. 56.
- <sup>12</sup> Ibid.
- <sup>13</sup> Ibid., p. 58.
- <sup>14</sup> Ibid.
- <sup>15</sup> Ibid.
- <sup>16</sup> Ibid., p. 59.
- <sup>17</sup> Clive Archer, *International Organization*, (London & New York: Rutledge, 3rd ed., 2001), pp. 148-151
- <sup>18</sup> For details see, David Held and Anthony McGrew, *op. cit.*, pp. 3-4.
- <sup>19</sup> Hans J. Morgenthau, *Politics among Nation*, New York: Alfred A. Knopf, 4th ed., 1967), pp. 25, 95-97. Also see, Evan Luard, *The Globalization of Politics: The Changed Focus of Political Action in the Modern World*, (London: Macmillan, 1990), p. 9.
- <sup>20</sup> Joshua S. Goldstein, *International Relations*, (New York: Longman, 5th ed., 2003), p. 90.
- <sup>21</sup> Archer, *op. cit.*, p. 66.
- <sup>22</sup> For details see, Jill Steans & Lloyd Pettiford, *International Relations: Perspectives and Themes*, (England: Pearson Education Limited, 2001), pp. 35-37. Also see, Goldstein, *op. cit.*, pp. 97-99.
- <sup>23</sup> For detailed discussion of functionalism, neo-functionalism, interdependence, regime, and system theories, see Archer, *op. cit.*, pp. 112-173.
- <sup>24</sup> Michael Mann, "Has Globalization Ended the Rise and Rise of the Nation-States", in David Held & Anthony MacGrew, *op. cit.*, pp. 139-140.
- <sup>25</sup> Susan Strange, "The Declining Authority of Sates", in David Held & Anthony MacGrew, *op. cit.*, pp. 148-155.
- <sup>26</sup> Ian Clark, "Beyond the Great Divide: Globalization and the Theory of International Relations", *Review of International Studies*, Vol. 24, No. 4, October 1998, pp. 479-480.
- <sup>27</sup> David Held and Anthony McGrew, *op. cit.*, p. 11.
- <sup>28</sup> Ibid. p. 10.
- <sup>29</sup> Ibid., p. 30.
- <sup>30</sup> Ibid., p. 23.
- <sup>31</sup> Ibid., p. 15.
- <sup>32</sup> Clark, *op. cit.*, p. 479.
- <sup>33</sup> For details, see Strange, *op. cit.*, p. 148.
- <sup>34</sup> Ibid., pp. 31-36.

# **MEDIA AND GLOBALISATION: CREATING ENVIRONMENTS OF CONCENTRATION AND COMMERCE**

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*Nothing will be done anymore, without the whole world meddling in it.  
(Paul Valery, quoted in Lesourne, 1986)*

## **Introduction**

Globalisation is a phenomenon that continues to flourish and has impact on local realities. In addressing globalisation, the link to the worldwide trend towards the increasing interconnectedness of people, goods, places and capital is a clear one.<sup>1</sup> The vision of an era of global media seems becomes significant when changes in other spheres of human societies are taken into consideration. The last two decades of the 20th century were marked by the fall of the Berlin Wall, the advancement of new media technologies and the collapse of the physical, virtual and institutional barriers, which had kept people apart<sup>2</sup>. We live today in an increasingly borderless world where we confront contradictions and inconsistencies as we make a great effort to integrate global movements in our daily activities on one hand, and strive to uphold individual and regional identities on the other.<sup>3</sup> As we perform our daily activities, we search for information and knowledge and it is in this light, the debate on media and globalisation and the directions in which it could develop to bring about social and intellectual advancement is an imperative one. The manifestations of globalizations are varied and emerge in economic interdependence to global patterns of consumption and commercialization — the ever closer trade relationships among nation-states, the growing number of transnational corporations; the development of ICTs, internet and discussions on e-commerce and e-governance; the worldwide spread of SARS and global health problems; as well as global ecological problems.

Globalisation has induced changing media contours in our living environment and these developments can be interpreted in various ways. When stories were first told, they emerged from homes, communities, rituals, mythologies, legends and imageries constructed in specific cultural contexts. These stories were significant in the socialization of societies into roles of gender, class, vocation and lifestyles. The story-telling process that used to be homemade and community-based went through a dramatic change with the advent of the mass media. In today's information technology societies, much of the story telling process is primarily mass produced and is largely market driven.<sup>4</sup> The production of media content is no longer innocent, natural and transparent — the complex and manufacturing process of making stories in the media is now controlled by several conglomerates that work to sell specific ideas and products. The cultural environment that is present now is one where the media pervade our homes and our minds with selected views of human experiences that enable communities to build identities in terms of gender, class, ethnicity — to build a sense of selfhood and how to conform or contest the dominant systems of norms, values, practices and institutions.

This article begins with a discussion on globalisation, which has become a central feature in all media developments. The discussion then gives attention to two emerging concerns within the discussion of media and globalisation: the rise of concentration and commercialisation. By way of conclusion, the discussion proposes the need for media literacy in the public interest as a critical strategy that will respond to citizenship and enhance editorial independence, content diversity and programme quality.

### **Approaching Globalisation**

As noted at the outset of this discussion, it was noted that globalisation in general emphasized the increasing interconnectedness of people, goods, places and capital. In the arena of politics for example, there is a breaking down of differences between domestic and foreign affairs and the boundaries of nation states is further blurred with modern transport and new media technologies like satellites and mobile phones. Production, consumption, money and labour as well as the expansion international trade and transnational corporations are supported with the growth of computer technologies and rapid exchange of information. The increasingly globalised technologies of communication are linked to culture as satellites; telecommunication networks and broadcast media collapse time and space to represent ideas, images and meanings on social relationships and people's social experiences.

The concept of globalisation has been examined carefully by many scholars like Giddens (1990), Featherstone (1990), Ferguson, (1992), Servaes (2000) who have drawn attention to the possibilities of people identifying themselves with cultural attachments and associations that go beyond those of the nation; the emergence of cultural and commercial symbols that are seen as large and worldwide that permeate our living environments and the possible decline of the nation as a political, economic and cultural force.<sup>5</sup>

Cochrane and Pain<sup>6</sup>, advance three perspectives in framing globalization:

- \* Hyperglobalists - that refer to a world increasingly dominated by a single global market, where the status of the nation-state is diminished, while there is a rise of a single world order, government, and global mass media. The underlying economic base is seen as an integral part of globalisation. Many see the impact of globalisation as a fait accompli; but among them are pessimists and optimists. The pessimists warn of the perpetuation of dominance of major economic and political interests and the widening gap between the rich and poor countries. The optimists stress that the authoritative state power will give way to individual autonomy and the market principle. New Media technologies, global and cultural communications are seen as engines that will drive development and progress for contemporary societies.
- \* The skeptics - that assert that there is nothing new about the globalisation phenomenon. Globalization is understood as distinct from internationalization in that it invariably evolves from the breaches of control of nation-states. This perspective propounds that internationalization is in fact the current trend since economic policies and regulation emanate from nation-states and their respective regional trading blocs, rather than through top-down global coordination of a single world economy. There is concern about the cultural impact of international flows of information and entertainment programmes, mainly from the West and the widening gaps between North and South nations.
- \* Transformationalists - that recognize that the world is much closely wired up and that the process of globalisation will reshape modern societies and world order. This perspective points out that all social, political and economic movements are intricately linked at both local and international levels and that the media role and impact is a complex one that has to be scrutinized at various levels.

The three perspectives outlined above provide a useful framework for a better understanding of the complexities and opportunities when talking about the media. As more and more people live in mediated environments, it is important for contemporary societies to understand that media play a significant role in connecting the local known contexts of interaction

with similarities and differences that take place in many parts of the global environments. In the following section, I focus on two major challenges that we have to confront in talking about media and globalisation.

### **Changes in the media scenario: media concentration**

The most popular television shows among foreign countries in the 1990's were 'Baywatch' and '*Xena - The Warrior Princess*'<sup>7</sup>. In the entertainment sector, audiences of the world tune in to increasingly common media materials that come from United States. MTV is present in many parts of the world and has versions in Chinese, Japanese and Spanish. The proliferation of global news channels like CNN, CNBC and BBC also hide the problematic experiences of media — as witnessed in the reporting of the Iraqi war this year, where the processes of selection, agenda-setting and interpretation sought to justify the interests of a number of groups in 'doing war'.

The issue of media concentration is important one as the media scenario in many parts of the world are owned and controlled by a small number of holdings. In several countries, the most important newspaper owners have access to the quality newspaper market as well as to the popular press. In the U.K. the quality paper, The Times and the tabloid The Sun belong to one organization. In Europe, small marginal papers have been taken over by the large press holdings that are closely linked to governments.<sup>8</sup>

There has also been an increase in private and commercial television stations and pay TV channels. In Malaysia, Zaharom observes that an air of misplaced optimism prevailed with the introduction of new commercial television stations as it was thought that there would be greater media freedom and the production of a variety media contents. The increase in the channels, Zaharom has asserted, has resulted in greater state intervention and domination of the mass media industry as well as the production of programmes that support the status quo rather than question the existing order.<sup>9</sup>

The growth of new communication technologies further supported the new trends within the advertising industry, where preferred growth strategies, such as the formation of trusts and strategic alliances and the business logic have furthered concentration process. According to Meier and Trappel, when profitable companies have reached their national growth limit, they engage in diversifications into related businesses in other countries.<sup>10</sup> It is not uncommon to see the publishers, for example, entering the broadcast market, which give substantial impact on media concentration.

Market dominant corporations tend to influence public news, information, public ideas, popular culture and political attitudes. The link between the same corporations and the government is consolidated precisely because

the media can influence their audience's perceptions of private and public life.

Meier and Trappel<sup>11</sup> warn us of the following trends in media concentration:

- \* Market power expands to political power, where the economic strength of media conglomerates develops and these institutions become powerful in the societies.
- \* Issues related to media concentration are avoided in public debates and the media do not generate any public opinion on the potential risks and threats of media conglomeration.
- \* The media concentration favours big, highly integrated media corporations where privatization and deregulation stimulate the concentration of ownership.
- \* Media concentration leads to a reduction in the number of information sources and to greater uniformity of content.

The development of new technology has led to an increase in the number of media channels and media contents, yet if the structures underpinning the production, the buying and selling and the distribution of programs remain in the hands of a few conglomerates, the channels and medium will be dominated by narrow interests. The changes in the media scenario would not mean a step forward if the media operate primarily to serve market ends and political goals.

## **Media and Global Commercial Culture**

The link between media concentration and commercial culture is an important one. When the media were first developed, it was organized to serve public interests and to help support the development of countries. The state power sought to maintain political or religious control. Market power for the early media wanted to break this political and religious power held by the state to advance individual freedom of expression and this was seen as a positive value in the broad movement towards democracy, but, this did not thrive well as the quest for profit began to gain more prominence than a more active political participation in societies. Instead of bringing a range of representative political and social views, and the support for national and civic projects did not emerge strongly in societies.

Current developments in the media settings in many parts of the world like Europe and Asia are now spurred on almost exclusively by commercial motives and private investment. This is seen in the development of cable, satellite, digital television, multimedia and interactive media and in the Internet. The valuation of big media groups is increasing and resulting in

cross-media ownership where for instance, many larger American media firms like Disney, Time Warner, Turner Broadcasting have gained some ground in the expanding European media scene. There are now marked changes in the media, particularly in the broadcast media where market freedom has given rise to commercialism and the pursuit of profit. This is seen in the form of large-scale, low-cost and budget production and distribution aimed at the new working class.

While some countries experienced commercialization that stimulated depoliticisation, many other countries had to grapple with commercial media and the development of large-scale capitalist industries. Effective policy actions in response to commercialization in many parts of Europe have maintained some goals that serve public interest. McQuail has identified four key features that make a great effort to protect cultural and educational values<sup>12</sup>:

- \* The inclination to protect a public sphere for debate and information and to enhance rights of access and protection for diversity;
- \* Favouritism for the national language and culture with regard to audiovisual production and distribution;
- \* Maintaining and enforcing public accountability for issues that are of public concern;
- \* Private monopoly growth is limited by restricting cross-media ownership.

While many countries in Europe have responded with cautionary measures with regard to commercialization, the scenario in most parts of Asia has been one that embraced commercial models of media management that are aligned strongly with government interest groups. In countries like Thailand, Malaysia and Singapore, the state has intensified the allocation of its economic arm to the private sector and at the same time strengthening its ownership and control over public media organizations. Not surprisingly, since television must rely on advertising revenue as its major source of income, policies on production and programming have been slanted to favour the advertisers targeting the consumer market. The aspiration to enhance the communication needs of the people did not gain much prominence. Zaharom observes the increasing use of television as a medium for the ever expanding consumer society in Malaysia with the emergence of teleshopping slots and the rise in business-oriented programmes.<sup>13</sup> He argues that there is a very unhealthy alliance between transnational media companies and the local ruling elites where Malaysian television has



succumbed to the profit motive and disregarded other priorities of communication.

The contention here is the logic and spirit of commerce, which pursues profit as the primary goal and denies the other purposes of communication. Many broadcasting systems that served public interests have been diminishing while private organizations, which served the private interests, gained significance because wider global markets were available. In many countries, including Malaysia, it is also recognized that public service broadcasting systems are thinking more about surviving and perhaps even prospering in the new global scenario. The admission of advertising as a major source of finance for public service broadcasting is not seen as a controversial issue anymore.

We are confronting a situation today where most of the media content and commercials, specifically television programmes from western countries sell models of affluence, style and value<sup>14</sup>. Commercials are embedded in the media content and there is a growing increase of advertiser-supported content production, which responds to diversity in a skewed manner as it seeks to target specific audiences with their products. Television, for example is seen as an effective agent for colonizing minds as it occupies an important place in homes and provides large amounts of entertainment that shapes our understandings of our daily experiences and our relationships with people from other parts of the world. The media bombard the people with ideas that urge them to think of themselves as individual units who require commodities.

### **From Consumers to Activists**

There is much interest in the new media world that we are living in today where we are in the midst of an era of economic expansion and the formation of a global village. These developments in turn, are having a dramatic impact on our daily activities. We are increasingly surrounded all sorts of images and messages that are being generated by computers, CD-ROMs, Internet, cellular phones, cable and satellite television, videodiscs, video-conferencing, online newspapers, digital radio and other wireless and fiber optic technologies. These new media also equip us to perform digital shopping, banking, e-commerce, tourism and travel services, e-governance, communication, chatting, electronic mail services, research and smart studying.<sup>15</sup>

Today's world sees people hearing to music, reading magazines, watching television, connecting to the World Wide Web and there is a commonality

- the formation of interdependent popular culture in a global world. The meanings, messages and images generated by the media generate commercial culture and urge people to think of themselves as individuals who in need who require commodities to become who they are, as private competitors for plenitude in interpersonal and economic markets.<sup>16</sup> The media are important shapes of our perceptions and ideas and inform daily decision-making. The ubiquitous presence of the media demands an educational response that will impart the ability to increasingly understand the complex language codes (print, visual, audio, spatial) in the media.<sup>17</sup>

It is here that the role of media literacy and media research is important if we wish to preserve a public sphere for debate and information and to enhance rights of access and protection for diversity. Since the media plays a vital function in the life of the individual and of society, learning in societies should also encompass use of media, as one should have the ability to understand as well as to generate multiple modes of transmitting different codes and meanings. The focus on media literacy is important because most of the communication and media artifacts underpinned by the commercial motives are conveyed in complex and pleasurable ways that inform many communication and cultural activities in both the private and public sectors in many parts of the world. While media literacy movements aimed at developing citizenry are active in United States and Europe, they are still in embryonic stage in many parts of Asia, including Malaysia.

The concern here is initiating projects that equip learners with skills and competence that engage learning as part of social practice and as an area of critical awareness for questioning the media and the representations that are taken as obvious order of things or as 'common sense'.<sup>18</sup> It can also be referred to as the understanding of how media texts that are part of daily lives help us to construct knowledge and make sense of the world around us.<sup>19</sup> It is concerned with how messages are put together, by whom, and in whose interests, and with how to construct messages that are similar to as well as different from current conventions.<sup>20</sup> Hidden in these problematic experiences are the processes of selection, agenda setting and interpretation, as the students will now engage with the language of the media and the ways in which the media construct reality, opinions, ideas, images and sounds.

The study of literacy cannot be detached from learning about life — it is linked to engaging learning as part of social practice. Educationists like Baynham (1995), Fairclough (1992) and Masterman (1985) have urged for investigating media as part of critical literacy that involves the integration of listening, speaking, reading, writing, critical thinking and

numeracy.<sup>21</sup> It also includes the cultural knowledge, resources and facilities developed at the home and school settings that enable a speaker, writer or reader to recognise and use language appropriate to different social situations. Appropriating critical literacy to media experiences will engage learning as part of social practice and educate media audiences in the critical skills needed for a ubiquitous, commercially overwhelming media environment. The development of critical literacy does not refer to the learning about facts on language grammar and vocabulary of the media only but also a process by we come to understand much more fully than before the nature of their own experiences as users of media.

Appropriating critical literacy to media experiences can be referred to the understanding of how media texts that are part of our daily lives helps us to construct knowledge - this is concerned with how messages are put together, by whom and whose interests and with how to construct messages that are similar as well as different to current conventions and practices<sup>22</sup>. This is also about creating active people who would command some degree of urgency in deciding what positions they would accept, reject and negotiate when they encounter media.<sup>23</sup> While we cannot dismiss the growing power of commercial culture and the concentration of media that is profit motivated, we cannot also ignore the possibilities of social groups to take an active role in reconstructing the social understanding of global media and global societies. It is important that we understand how our lives and our daily experiences are mediated through the media, so that we can unveil these interpretations and create more complete and fulfilling lives.

## END NOTES

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- <sup>2</sup> An interesting discussion is provided in Servaes, J & Lie, R (2000) **Media Versus Globalization And Localization And Or Through?** Paper presented at International Communication Conference, "Shapes of the Future: Global Communication in the 21st Century", Taipei, Taiwan, November 17-19.p. 2
- <sup>3</sup> See Razali Ismail (2000) *Globalisation Revisited*, In Wong, H et al (Eds) **Language and Globalisation**. Seri Kembangan : Longman. p.2-7
- <sup>4</sup> The significant role of the media in telling stories to contemporary societies is highlighted in Budd, M, S. Craig and C. Steinham (1999) **Consuming Environments: Television and Commercial Culture**. New Brunswick: Rutgers University Press. p.xiii.
- <sup>5</sup> See Featherstone, Mike (1990). "Global culture: An introduction", in Mike Featherstone (Ed.), **Global culture** London: Sage Publications., P 1-14 and Ferguson, B (1991) "What is Media Education for?" in Prinsloo, J & C. Criticos (Eds) **Media Matters in South Africa**, Durban: Media Resource Centre, University of Natal.

- <sup>6</sup> See Cochrane, A. & Pain, K. (2000). "A Globalizing Society?", in: Held, David. (ed.), **A Globalizing World? Culture, Economic, Politics**, London: Routledge in association with The Open University, p. 5-45.
- <sup>7</sup> See Dominick, J (1999) **The Dynamics of Mass Communication**. Boston: McGraw-Hill College. p.74-77
- <sup>8</sup> The worrying trends of convergence and commerce are mapped in the European context in Siune, K and O. Hulten (1998) Does Public Broadcasting Have a Future? In McQuail, D and K. Siune (Eds) **Media Policy: Convergence, Concentration and Commerce**. London: Sage.
- <sup>9</sup> For the case of Malaysia, see Zaharom Nain (1996) The Impact of the International Marketplace on the Organisation of Malaysian Television. (1996) In French, D and M. Richards (Eds) **Contemporary Television: Eastern Perspectives**. London: Sage.p.160-165.
- <sup>10</sup> See Meier, W.A. and J. Trappel (1998) Media Concentration and Public Interest in In McQuail, D and K. Siune (Eds) **Media Policy: Convergence, Concentration and Commerce**. London: Sage. p 36.
- <sup>11</sup> Ibid, 39-40
- <sup>12</sup> See Mc Quail, D (1998) Commercialisation and Beyond. In McQuail, D and K. Siune (Eds) **Media Policy: Convergence, Concentration and Commerce**. London: Sage. p 112
- <sup>13</sup> See Zaharom Nain (1996) The Impact of the International Marketplace on the Organisation of Malaysian Television. (1996) In French, D and M. Richards (Eds) **Contemporary Television: Eastern Perspectives**. London: Sage.p.165.
- <sup>14</sup> See Budd, M, S. Craig and C. Steinham (1999) **Consuming Environments: Television and Commercial Culture**. New Brunswick: Rutgers University Press. p 6 -10
- <sup>15</sup> See Tapscott, D. (1997) **The Digital Economy: Promise and Peril in the Age of Networked Intelligence**. New York: McGraw- Hill for the impact of new communications and information technology in today's world.
- <sup>16</sup> Budd, M, S. Craig and C. Steinham (1999) **Consuming Environments: Television and Commercial Culture**. New Brunswick: Rutgers University Press. p 16
- <sup>17</sup> See Ambigapathy Pandian (2001) Advancing Literacy in the New Times: Happenings in Contemporary Malaysia in A. Pandian. & M. Kalantzis (eds) **Literacy Matters: Issues for the New Times**. Australia, Common Ground Publishers.
- <sup>18</sup> This is one of the earlist work that assessed media education in a critical way to raise conscientisation among learners in schools. See Masterman, L (1985) **Teaching the Media**, London: Comedia
- <sup>19</sup> See Alvermann, D. E.,J.S. Moon (1999) **Popular Culture in the Classroom: Teaching and Researching Critical Media Literacy**, Newark International Reading Association.
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- <sup>21</sup> The argument that language is not value-free is well propounded in Fairclough, N (1989) **Language and Power**, London: Longman. See also Baynham, M (1995) **Literacy Practices: Investigating Literacy in Social Contexts**, New York: Longman.
- <sup>22</sup> Alvermann, D. E.,J.S. Moon (1999) **Popular Culture in the Classroom: Teaching and Researching Critical Media Literacy**, Newark International Reading Association. p.2
- <sup>23</sup> Buckingham, D (1995) "The Commercialisation of Childhood? The Place of the Market in Children's Media Culture" in **Changing English**, Vol:2(2):17-40

# WTO'S COLLAPSE AT CANCUN

*Dato' Khor Eng Hee*

*Datuk Khor Eng Hee was a principal Malaysian negotiator in the Uruguay Round from the preparatory stage in 1985 to its mid-term review in April 1989. He was Malaysian Permanent Representative to the UN Office in Geneva and Malaysian Representative to the International Organizations based in Geneva including the GATT. Apart from other duties and positions as a diplomat, he was Chairman of the Board of Governors of the International Atomic Energy Agency, Head of the Malaysian Delegation to the 2nd session of the UN Conference to convert the United Nations Industrial Organization or UNIDO into a Specialized Agency, in the late 1970s, Head of the Malaysian Delegation to some G 77 Ministerial Meetings in late 1970s and early 1980s, and a member of the Malaysian Delegation to other international conferences, e.g. Non-Aligned Movement, including the 37th session of the UNGA. His last post was Malaysian Ambassador to Argentina with concurrent accreditation to Chile, Paraguay and Uruguay. He served as the Malaysian member to the Asian Eminent Persons' Group to review the Colombo Plan and the Malaysian member to a Joint ASEAN-EC Eminent Persons' Group to review ASEAN-EC co-operation.*

The 5th Ministerial Meeting of the World Trade Organization (WTO) convened to review and decide on the progress of the Doha Development Agenda Round ended on 14th September 2003 without any outcome except to instruct the General Council to meet at the level of Senior Officials in December to continue the negotiations<sup>1</sup>. This decision was contained in a 6-paragraph statement issued by the Chairman at the conclusion of the Meeting. The statement did inform that the Meeting made considerable progress but there was no official report to show what this progress was. Is this mere rhetoric? The daily summary report by the WTO Secretariat at best provided a picture of major differences still prevailing among members in all the areas under negotiations. The only fair conclusion one could make is that there was no forward movement to what prevailed prior to the Ministerial Meeting.

The situation is now subjected to various interpretations. It also prompted various reactions. However, reports by some NGOs show that much was

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<sup>1</sup> A good evaluation of the Ministerial Meeting is given in the paper called "Missed Opportunity In Cancun" by Caritas/CIDSSE.

wrong with the way the Meeting or negotiation was conducted at Cancun over certain key issues such as the Singapore Issues. Some 80 countries were reported to have formally objected to the inclusion of these issues into the agenda of the Doha Round. Under the rules on decision-making in the WTO Agreement (Article IX.1) or the requirement for explicit consensus, such overwhelming objection plainly constituted a decision to reject the Singapore Issues<sup>2</sup> as agenda for negotiation. The Chair should have made a ruling to that effect at Cancun. This oversight, whether deliberate or not, reflects poorly on the person of the Chair and on the organization. It is another episode that adds up to the tainted image that is already with the WTO, namely, one of being undemocratic and prone to manipulation.

The press generally described the Ministerial Meeting at Cancun as a failure. The Mexican Foreign Minister chairing the meeting was reported to have spoken of dire consequences for world trade. There was as reported by the press an outburst of temper by the Chairman of the US Senate Finance Committee against those who took a stand in opposition to US interests. He issued certain threat. The Minister leading the Malaysian delegation gave a retort, as she was much involved in putting up the position of developing countries.

Some among the press described the failure as resulting from a show down over the so-called Singapore Issues between developed nations and developing member countries. It was also due to a deadlock over agriculture; on one side, the United States and the European Union, and on the other side, a coalition of developing countries called G 21. Others tried to put the blame equally on both developed and developing countries. The latter were told that they stood to lose the most in the collapse and that they were making a serious mistake to cheer over the event. The NGOs were put on the carpet for incitement among some African countries over agriculture. Some in the western press forecast of grave consequences for poor countries should the Doha Round fail because of what happened at Cancun.

The Economist in 20th - 26th September issue quoted a World Bank report of some US\$500 billions economic gains coming from the Doha Round of which 60% would go to developing countries. Similar tempting forecast was made of the Uruguay Round. Its assessment is that the failure

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<sup>2</sup> Singapore Issues is a common term used to refer to 4 trade-related areas; namely trade and investment, trade and competition policy, transparency in government procurement and trade facilitation proposed by the European Union at the Ministerial Conference held in Singapore in 1996 as agenda for negotiations in the new round of negotiations.

“sprang not from principle, nor even from intellectual calculation, but from cynicism, delusion and incompetence”. It is not clear to whom such strong words are directed. Perhaps to poor countries as these are taken from the paragraph in its leading article that warns of serious mistake on the part of these countries to cheer about the collapse.

Another article called Special Report on the Doha Round of the same issue made some interesting observation. It noted that the failure went further than miscalculation on timing. This happened because of intransigence and brinkmanship by both rich and poor countries, irresponsible and inflammatory behaviour by NGOs. Its view is that any one among the members can hold up any aspect of negotiations, and the WTO's requirement for consensus thus makes it virtually impossible for the trade body to be reformed.

## **WTO'S PURPOSES**

The WTO is very much in the world's spotlight not just because of the bad news at Cancun, Seattle earlier or what some in the western press try to make out of it to impress poor countries of grave consequences, following failure in negotiations. It is useful to go back to the rationale of the organization's establishment at a time of crisis as at Cancun or when it strays from its purposes. The trade body was formed at the beginning of 1995 as the institutional framework to manage and administer the outcome of the Uruguay Round, and in addition, to be a forum as they may decide for the members to deal with other matters relating to their multilateral trade. As the name suggests it is the world trade body wherein member countries co-operate to promote sustainable economic development through trade with a priority for the needs of developing countries. The means or *modus operandi* to achieve these purposes is through trade negotiations leading towards progressive liberalization and mutually advantageous arrangements.

As a mission and on paper these are noble aims as they represent international co-operation on trade for development. Developing members are comfortable with negotiations towards progressive liberalization, especially when one purpose of the organization acknowledges the need for positive efforts to allow them to secure a share in world trade commensurate with their development needs, and that in negotiations they are given special and differential treatment. Partly for these reasons more and more countries have joined the organization and many are waiting to be admitted. The total membership is about 148 of which more than two-thirds are developing countries.

There is a fundamental difference, however, in the perspective with which member states look at world trade. To developing countries it is the means towards social and economic growth and development. Some economies in East Asia including ours have shown that an export-led growth is a viable proposition. The success has inspired other third world countries to adopt similar approach. To major developed powers, however, world trade is more than a means to raising living standard. It is also a strategic concern bearing on their national security. Their pursuit in the trade body essentially is political. Japan, a country with little material resources except for the people, is perhaps the earliest after the last world war to have adopted such a strategic standpoint vis-à-vis world trade for national survival and progress. This difference in outlook influences negotiations in the trade body.

## **WTO'S UNDERCURRENTS**

Very soon after its establishment, unfortunately, the general perception is that the WTO is tainted with a reputation for manipulation, lack of transparency, and other undemocratic practices. The outcome of the Uruguay Round is considered by many developing member countries and a number of observers to be imbalanced. It was much due to behind the scene bargains among the trade majors, particularly between the United States and the European Union, and among other the so-called Quad members. For example, the Punta del Este Ministerial Declaration did not specifically include the formation of an international trade institution as an agenda item for negotiations. The assumption was that the practice of the GATT would continue to manage the results of the Uruguay Round as in previous 7 rounds. The idea of the WTO arose some time after the mid-term of the negotiations basically from behind the scene and as a surprise to many participants from developing countries.

The problem of transparency has plagued the trade body from the time of the last round with regard to the manner negotiations have been conducted. An increasing number of people, particularly in the Third World now realize the great stakes in their economic and social well being that the negotiations, euphemistically called trade talks, can bring about. Many feel that they are being shut out of the conference hall when important decisions are being taken at critical juncture, and being compelled to accept the outcome of which they have little say. Much also takes place behind the scene of negotiations among the Quad members.

Delay inevitably dogs the steps of the negotiators. This is perceived as a deliberate tactic used by some major players to drag negotiation up



to the very final end and only in the wee hours of the morning after long, sleepless and exhaustive night sessions. The press reported of the readiness of the EU Trade Commissioner to drop some of the Singapore Issues at very late hours at Cancun, and if this were true, it would be indicative of such negotiating style. They hope to exert the most concessions from the other participants with this brinkmanship. The Green Room<sup>3</sup> consultations, very much used to finalize the results and where only small and selective representatives are invited to attend, have characterized the negotiation process in the trade body from the time of the GATT.

There is a dichotomy, or double standard as some will say, in the operation of the trade body. On one hand Ministerial Declaration to launch a round inevitably professes special and differential treatment for developing countries in keeping with the objectives stated in the Preamble of the WTO Agreement. This commitment is made at the highest political level of the trade body. For example, the Doha Round is also called the Doha Development Agenda Round to stress its intention to cater to the development needs of these countries. Some call it a carrot. On the other hand, once negotiations get under way certain developed member countries assert hard to press for their interests and positions. This has happened in the Uruguay Round. In the heat of negotiations, or for other reasons, the positions of developing members are shunned aside. If poor countries resist as at Cancun, threat and unethical manoeuvre would come into play.

An increasing number of non-governmental organizations (NGOs) often called the civil society around the world in both developed and developing nations have awakened to the injustice and inequities that are perpetuated against the weaker members in the name of trade liberalization. They now follow the proceedings of important meetings in big number and press for their views to be heard in the conference hall. What some of them give of the picture about the organization and of its outcome where these

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<sup>3</sup> Green Room consultations refer to the select and restrictive informal consultations used by the Director General of the WTO Secretariat to reach agreement on difficult issues under negotiations. The group is chaired by the Director General and to which some 23 heads of delegations, such as the US, the EU, Japan, a few other OECD countries and developing countries, attend by personal invitation of the Director General. Green used to be the colour of the room in the Secretariat building where the consultations are normally held. The Green Room consultations have a Ministerial counterpart when the Ministers meet as at Cancun. I was invited by Arthur Dunkel, the then Director General of the GATT Secretariat to attend the consultations during the Ministerial Meeting held in Punta del Este in September 1986. Since that time the Malaysian Ambassador / Representative to the trade body has been an invited, except for a brief period, after I left Geneva for another posting. Our Minister of International Trade and Industry is a veteran of the Green Room Consultations, and I may add, a highly respected one at that. A good account of this process in decision-making is given in a paper entitled "WTO Decision Making : A Broken Process" by the Institute for Agriculture and Trade Policy.

impact on third world countries is a contrast to the positive account that one hears from a number of scholars, observers in certain developed nations and some from the western press. This development is unheard of in previous trade negotiations in the era of the GATT until about the end of the Uruguay Round. However, the activities of the NGOs are vociferous, an unnecessary intrusion and more a liability in the view of some in the press.

## **POLITICAL CROSS CURRENTS**

What do these events in the WTO inform and portend? One has to consider the question against the background of international political developments, the changes taking place in the world economy due to advances in information and communications technologies, the rise of new growth centers in Asia and the place of trade in these developments. As economic supremacy in the geopolitical sense and trade competition become preoccupation in international relations post Cold War, the trade body is much about economics, law, technicalities, bargaining, disinformation and brain-washing as about politics. But politics, i.e. the search for advantage and power, runs through all these. The ups and downs in the organization basically reflect the political cross currents in the contemporary world.

There is a North-North dimension where the struggle is for economic advantage and supremacy among the economic powers. To some of them it is about national security as well. This view of trade took shape when many people in the United States as if of a sudden in the late 1970s and the early 1980s realized the country was falling behind Japan in a number of industries and in trade, such as the automobile and semiconductors to name a few examples. When Japanese entrepreneurs bought over some of their prized assets such as the Rockefeller Center in New York, the Pebble Beach Golf Resort and etc. the horrors of economic competition reached the home front as never before. It looked like the visit of the Black Ships in reverse.

There was a hue and cry among certain section of the public over what they saw to be foreign takeover of some of their patrimony. For years the country has been involved in quarrels with the European Community over protection in agriculture and subsidies for the Airbus. Interesting names such the chicken war, the pasta war, and etc. marked the tensions in this episode. There were burgeoning trade deficits with Japan and other European countries. Trade with countries like Japan consisted more of US exports of raw materials and imports of manufactured products, regarded by some in the country of something akin to the pattern of trade of colonial territories.

Many in the US awakened to the situation with great shock. The general opinion was to put the blame partly on the GATT for its ineffectiveness. The genesis of the Uruguay Round must be seen against this background. As early as 1982 the United States was already calling for a round of trade negotiations, and later to press for inclusion of trade in services and protection of intellectual property rights. The WTO came about largely as a result of the US drive to establish new set of rules for world trade. It is the demandeur to use the parlance of the GATT.

There is a North-South version of this tussle where many in the West view the emerging economies in East Asia with apprehension and as a potential threat. There seems to be too many Japans in the making for their liking. The imagery of the flying geese as some Japanese scholars try to depict the situation is far too innocuous. Some in the West started to call these economies "tigers". The use of economic ideology, namely the virtues of free trade and economic liberalization, to win the mind of the political leaders becomes a useful psychological weapon to discourage any would-be followers in other parts of the Third World.

In this pressure for trade and other economic liberalization, something of an obsession, and indeed a phenomenon, within the last two decades or so, an increasing amount of literature is being churned out about various issues relating to trade and their liberalization and what such liberalization plays to create economic growth for poor countries. The impetus comes from the United States. The European Union and Japan join the act. This is one reason why new acronyms and names keep coming out of the trade negotiations. In the Uruguay Round we have trips, trims and gats. At its beginning there was also fog. Somehow along the way the name disappeared among the mist. Now we read in the world press, not just Malaysian newspapers, of Singapore Issues. What these new issues amount to, in addition to the traditional GATT preoccupation with market access and other border barriers, is the demand of the trade majors for a level playing field in world trade. The WTO is put in the spotlight partly to emphasize its pivotal role.

## **WORLD BANK, IMF & WASHINGTON CONSENSUS**

The GATT as a trade body and until the last round was not given the attention that the WTO is receiving. The World Bank and the International Monetary Fund have perhaps more trade experts in their employment within recent years than what you can find in the WTO and the United Nations Conference on Trade and Development or UNCTAD. Research institutions in certain developed nations such as those in the United States

and the Secretariat of the OECD are equally busy with issues in the trade body. The Bretton Woods Institutions write much on the theme of the Washington Consensus, i.e. to promote trade and economic liberalization based on market fundamentalism. They are just as quick to write about and to promote new issues as these are introduced into the trade body. Consultancy firms with specialists on trade issues increase in number in the US to advise pressure groups how to promote their respective areas of interest or concern into the trade body.

Officials in the WTO Secretariat, perhaps to their chagrin, cannot match up to their counterparts in the World Bank and the IMF in this regard. This is not to say that there are no economists in the World Bank who look at trade and economic liberalization in a different light. Joseph Stiglitz, formerly Senior Vice President in the World Bank, stands out as a good example of people who have a different perspective and who advocate a different tack. What happened, he was eased out of the World Bank for heresy. The award to him of the Nobel Prize for Economics is perhaps a vindication of the righteousness of his approach.

It has been for some time now that economists in these two institutions have been advocating that trade and other economic liberalization is a win-win situation. It is not a zero sum game they say. The static theory of comparative advantage has been a favourite concept to push for this line of policy for more than half a century. The term Washington Consensus arose in the early 1990s to capture such an economic approach. Countries seeking assistance from the IMF are required to undertake trade and other economic liberalization as part of the conditionality before any loan can be dispensed with. For two decades or more a number of countries in Latin America, and other regions, one after another, have been obliged to adopt such an economic approach in their policy programmes for recovery.

The pressure, manipulation, delay, frustration and excruciation that accompany negotiations in the trade body since the Uruguay Round, for which Seattle and now Cancun are the latest examples, fly in the face of advocates who preach a win-win situation. If win-win were the case, it would be one of the biggest ironies of our times as liberalization exercise had become one of the most difficult subject matters confronting diplomats, even the Heads of Government of G 7 as near the end of the Uruguay Round. The reality is what Cancun, Seattle earlier, and the Uruguay Round before, are disclosing. Trade negotiators are called trade warriors by some authors to imply the big battles that are being fought. The major protagonists in the Uruguay Round were the United States versus the European Union over agricultural trade much like in previous rounds and between developing countries and developed members over most of the issues.

In fact, developing countries in Latin America, Africa and Asia have undertaken liberalization in their respective economy for about two decades, a few on their own steam as well, such as Malaysia. The liberalization compared to what developed nations have done in the same period is relatively by far surpassing. The latest and best example is China. This country has become a powerhouse in manufacturing as a consequence after about 20 years of opening up to global markets and foreign investments. Its growth rate is among the highest in the world. National income has doubled in about this period. Its success story is provoking intense consideration and debate among certain Indian intellectuals of where their economy stands in such circumstances and what approach the country should now adopt.

The overall picture in the Third World, unfortunately, is not encouraging. Many in Latin America are suffering from an illusion as economic recovery, stability and growth continue to elude most of them. A few of them have gone repeatedly to the IMF for help. Poverty line increases despite the IMF prescription. The overall social and economic situation in a number of countries is aggravating and unprecedented. In fact there is a backlash as certain political leaders with different economic inclinations have been voted into power. African countries as a group have seen their share of world trade going down despite these years of opening up their economy. For a number of them the pattern of trade has hardly changed. Many still depend on two or three commodities for exports. Many have also gone to the IMF for assistance. Where are the billions of US dollars of gains in trade and economy that some economists have forecast from the Uruguay Round as going to developing countries? The sudden financial collapse that nearly destroyed economies in East Asia in 1996-1997, after years of hard work and consistent export-led growth rate, has exposed the grave danger that economic liberalization, especially capital liberalization, can bring about.

The kind of economic liberalization that the World Bank and the IMF advocate, has not brought about the kind of impact and recovery expected, one main reason being that it was carried out without due regard for appropriate improvements in the institutional foundation or a recognition that without the necessary industries trade and other economic liberalization served little meaning. This is a view that is becoming to prevail among an increasing number of economists and observers. There is also an acknowledgement that there are winners and losers in trade liberalization.

Development efforts in essence call for a paradigm shift in the mindset and working habits of the people concerned. These are issues that only the authorities and people involved can better deal with. Trade and other

economic liberalization have an important role in such a change, no doubt about that. This should be done according to the capabilities of these economies to compete in world markets. This is a gradual and progressive process as envisaged in the GATT and the WTO Agreement, not done with a great dose as what some major economic powers demand. Economies in East Asia have gone about their liberalization in a progressive manner. Compete poor countries must if they want to advance in the world economy under present day globalization but at the pace and approach that they are confident with.

In certain sense what the Washington Consensus and their advocates do is a battle for the heart and mind of the people, reminiscent of the way the Cold War was fought at its height. The main support is their press media. The struggle here is sometimes cast as one of Western capitalism versus Japan-type capitalism where the government plays a pro-active role in economic development. Scholars and economists pushing this view seem to forget that Western industrialization began much at the back of government support. There is a precedent in the history of industrialization. It is not that developed economies such as the United States or members of the European Union are suddenly averse to government intervention in the economy. In the areas of agriculture, space, defense, research and development, for example, the US Administration is very interventionist. The Airbus is another example of government intervention in the development of air transport in Europe apart from agriculture. These are areas about which very few countries can match them and most of these remain outside liberalization. It can also be said that their economies are as much regulated as some among developing countries.

Japan turns up to be a very good student. It is also very good at what some economists in the US call industrial targeting. Because of such a strategy in such sectors like the automobile, steel, electrical and electronic industries Japanese rose to be formidable competitors in the early 1980s. A number of Asian economies in turn adopt the Japan model in their plan. The notable achievements of the Republic of Korea and Taiwan further enhance the viability of this model. They have become great competitors in a number of trade sectors as well because of their emulation of Japan. The rationale of Malaysia's Look East Policy is much motivated by these good examples. Nevertheless, the opponents to the Japan model were fast in jumping into the financial crisis of East Asia in 1996-1997 to vindicate the righteousness of their view. Economies in the region are up on the rise again, providing the biggest economic growth area in the world economy. Their rapid recovery must be proof that what they have been doing with their economy has been basically correct while no doubt certain mistakes have been made.

## **WTO & NGOs**

Contrary views about world trade, economic liberalization and the WTO can now be found in a number of non-governmental organizations such as Oxfam, the South Centre in Geneva, the Third World Network, renowned economists such as Joseph Stiglitz, etc apart from efforts of UNCTAD Secretariat to support the interests of developing countries in trade negotiations. More developing countries are coming up with their own viewpoints about work in the WTO as well as making their voices heard. The Internet has become a useful medium to convey different perspectives and views that for quite some time used to be one-sided. The failure of the IMF-type approach in a number of countries has prompted an intense review by the governments concerned as well as by a number of scholars about development economics.

Many of the NGOs seem to serve as conscience of the world. They have become a feature about the WTO whenever something exciting takes place in the trade body. Some in the western press have a completely different view about them. The World Bank is becoming vocal in its view of the grave damage done to developing countries by agricultural subsidies used by developed economies. I am not forgetting the views expressed by political leaders in a number of developing countries, one of the earliest are those ably uttered by our Prime Minister. Here the thrust is one for caution about the rush towards trade and other economic liberalization. Being politicians these leaders are much alive to the political forces behind the pressures. Some of them know full well what is good for their economy and not necessarily what some outsiders try to preach. They know as well that their entrepreneurs will require certain government protection to build up their sinews before they face global competition within their home ground and in world markets despite the hype about free trade.

These leaders are equally aware of the rapid changes now taking place in the global economy, particularly the great changes exerted by information and communications technologies, the growth of East Asian economies as a world manufacturing hub, the rise of India as a software giant, an inspiring example, and the imperative that their business enterprises have to compete with the best in the world if they want to survive and succeed in the current phase of globalization. Their big challenge is how to fine-tune the balance between opening up their markets and economy and the continuing need to accord protection to nascent industries. Another dilemma is how to ward off pressures exerted in the trade body by some of the economic powers to serve their own ends rather than the common good.

In the early 1980s the US provided the biggest impetus to change in the GATT. It is currently running another huge trade deficit, many times what it suffered in the early 1980s. Current accounts also run into record deficit. The severity of these economic problems is many times worse than that prevailing in the 1980s. Another round of debate is engaging politicians and scholars about this situation and how their leadership stands in the world. Pressure groups are working hard on Congressmen to demand changes again in world trade and the trade body bears the brunt. They want the WTO to take in, apart from the Singapore Issues before Cancun, labour, environment and some, human rights to rectify what they see to be unfair trade practices among its trading partners in developing countries. These issues are not yet before the agenda. They will come. Whether or not such issues will cross the threshold of consensus in the WTO Agreement is another matter.

Some in the western press nicely put the demand, reformation of the trade body. Unlike such observers and some academics, US political leaders do plain talking about what they seek. They make no bone that they want US standards to be the norms in the trade body in areas they consider important to strengthen their trade and to take care of the deficits. In the early 1980s these mainly were services and intellectual property rights protection. Having got these in the Uruguay Round they want more. In their view low standards in poor countries are giving these countries an undue advantage in trade. Japan used to be the main target but for different reasons. Now it is China. The other emerging economies in East Asia are not far behind. It is a two-prong approach, trade and exchange rate.

The WTO thus becomes the focus as these various forces impact on its daily work as much as it is an agent for some of these forces. Members try to work their respective way to create advantage or to defend their position. In the heat of this struggle the purpose of the organization to give poor countries a priority is either forgotten or perverted. This is one reason why NGOs have risen to be a factor in trade negotiations. Some in the western press, however, have a different way of interpreting the situation. Their advice out of Cancun in a nutshell is, poor countries should better listen and comply, if they want what is good for them.

## **BIAS FOR MAJOR ECONOMIES**

Trade negotiations in the forum are highly political as a result. The thrust of trade and other economic liberalization that economic powers want to make out of the WTO amounts to undertaking commitments,



consisting of rights and obligations. For most developing countries these rights mean little in practical terms but not the obligations. As they have found out from the Uruguay Round these can be burdensome and a liability despite the so-called special and differential treatment. The outcome of the last round was imbalanced against third world countries. Michael Finger, formerly of the World Bank, was perhaps the first to demonstrate the situation. Some of the obligations tie down the hands of developing countries with regard to their flexibility to take an independent approach to social and economic development.

Negotiations towards trade and other economic liberalization favour major economic powers with huge domestic markets, namely the United States, members of the European Union and Japan when the economic might of such economies is brought to bear on developing countries. The WTO's *modus operandi* of negotiation through exchange of reciprocal concessions provides leverage to these economies as a start. In cases of trade dispute even when the dispute panel decides in favour of a developing country and allows the latter to take retaliation against a developed economy, in most cases this has little impact. This may not be the case if it is the other way around. Imagine what damage a major country could do to a developing country's trade if it were allowed such retaliation. The operation of the trade organization as practised so far has a bias in favour of major developed economies. Politics often supersedes economic sense in the negotiations and the outcome is not necessarily a win-win situation. It can be inimical to the interests of developing economies. The situation becomes gloomier if one were to add the manipulation and other undemocratic practices that are associated with the trade body.

Developing countries play a small role in world trade. Their domestic markets are miniscule compared to those of developed economies. Emerging economies have just begun to establish a foothold in world trade and that partly due to the role of foreign multinationals in their economies. Compared with those of major developed members trade barriers used by them do not have the same adverse effect on world trade and economy. To ask them to bear with developed nations the same obligations towards reduction and elimination of trade barriers is unfair in this situation even when their fulfillment is allowed to come in by stages. This is because eventually, e.g. in 10 years in some cases, their obligations will reach the same level as those of developed members while they continue to remain developing countries. The trade body is also about international cooperation among rich and poor countries, and with a pledge by the rich to help the poor. When inequity that tips against the poor becomes a feature of such a co-operation the set up is fundamentally wrong. Oxfam has worked hard to convey this message. There are not that many trade experts and observers who take such a view of the trade body.

Developing countries including China are on a learning curve with regard to winning world market share, in trade liberalization and what that means. The initial success of some in East Asia in world trade comes about partly as a result of foreign investments that have gone offshore of their home countries to take advantage of the benefits that many in the Asian region are now offering. Globalization is compelling many multinationals and other entrepreneurs to go abroad to such economies to establish a niche in manufacturing or services to stay competitive. The phenomenon of what we see in the number of investors venturing to China is not one of charity. The drive is to establish competitive edge by using the abundant, cheap, disciplined and skillful labour readily available in that country and to tap its huge domestic market as the country and the region grow. Jobs are lost in home countries as these investments leave for China. The US is not the only country getting the impact. Asean is reinventing itself to meet this challenge. It is finding different ways to work with China and other major countries in Asia for the common good.

Economies in East Asia have still a long way to go to obtain a reasonably high standard of living. A large part of China for example remains poor despite its achievement as a manufacturing powerhouse, currently located along the coastline. Greater efforts are still required and the government continues to play an important role. They are comparatively new players in the game in world trade. On the other hand the multinationals of developed economies in the West have been foraging for resources and markets since the first European power ventured into the Far East in the early 16th century to look for spices and to take the trade into their own hands. Japan is a latecomer.

Major developed nations have better human, financial and organizational resources at the back of their call in their participation in the WTO. They have trade experts and well-experienced negotiators to support their positions at the negotiating table apart from the accumulated and broad knowledge of their entrepreneurs of world markets in various fields of businesses and industries. Their positions in the negotiations are a concerted combination of these various resources. At home senior officials in the capital stand ready to use the full weight of their diplomatic forces on any would-be recalcitrant. Crow bar diplomacy has been coined to describe one method used by the US to prize open another economic power.

Developing countries on the other hand are generally poorly organized and equipped. Is it any wonder that their stance is largely one of facing an onslaught of demands to open up their economies, despite the fact that such demands are equally made on all other member countries, one largely

reactive, and at the end of the day of finding themselves on the losing end of the bargain. Will such contrasting resources and capabilities in negotiation bring about a win-win or a fair outcome? Do not these abilities provide undue advantage to developed economies at the negotiating table and on the playing field?

On the surface the Cancun Ministerial Meeting failed because the Trade Ministers of some 148 countries gathered there could not agree on a number of trade issues in the Doha Development Agenda Round, particularly on the so-called Singapore Issues relating to government procurement transparency, trade and investment, trade and competition policy and trade facilitation. Agriculture has for many years remained a very difficult issue for most countries and this has been another problem area. One thing clear is that subsidies and other government protection by developed nations have for long done grave injury to world agricultural trade and the losers have been poor countries.

One has to appreciate that the Meeting was held at the mid-point of the progress of the current round. Pressures and tensions have been building up as a consequence. A number of factors created the impasse. The Ministers were given a task that their trade officials in Geneva could not achieve over months of hard bargain. They had an impossible dateline. There was a clear decision to exclude the Singapore Issues into the negotiation agenda for the Doha Round yet for reason only known to him, the Chair at Cancun was not prepared to make a ruling. The matter now goes back to Geneva like a yo-yo to be taken up by the General Council when it meets at the level of Senior Officials. Constitutionally these Officials have no authority to make a decision on the matter. It has to be referred back to the Ministers at a Ministerial Conference.

## **UNSAVOURY CONFERENCE PRACTICES**

One feature that the NGOs have noticed is the kind of manipulation that goes on in trade negotiations. It is a common practice for the powerful members to manipulate, to cajole and to pressure the government at the capital when they run into a deadlock or unhappy with their negotiating partners at the table either in Geneva with regard to the WTO or New York with regard to the United Nations or the Security Council. Nevertheless, conference diplomacy at the international level is conducted on set parliamentary or conference procedure. The Chair and the Secretariat servicing such conferences are expected to be au fait with the practice and procedure, the latter to guide the Chair whenever he is in unfamiliar

ground. One important rule is that the Chair is neutral about position on issues under deliberation even when he is duty bound to guide the proceedings to a successful conclusion. If he cannot be impartial he should step down and let another colleague take over the Chair.

One unsavoury practice that has been reported is the conduct of negotiations by the Chair of the General Council. For Cancun the Chair could not produce an agreed draft text for the Ministers to deliberate. He came out with a text in his own responsibility and apparently endorsed by the Director General of the WTO Secretariat. Such a measure, if true, runs directly counter to established conference procedure and democratic practice at international conferences. Participating countries cannot be expected to accept a draft that is not the direct result of their positions, deliberations and compromises. Such a draft must emerge from the floor to follow established conference procedure. The approach used is the antithesis of the norm. It is certainly not the way to reach a consensus.

This breach has happened at Seattle and at other subsidiary bodies in the organization. This unparliamentary practice can only go on at the expense of the credibility of the organization and the head of the Secretariat. It sours the atmosphere. It provides easy pretext for countries that do not want any outcome. It encourages grandstanding. When a conference collapses because this is a contributory factor responsibility falls on the Chair and the Secretariat that services the meeting.

The WTO seems to be a class by itself with extraordinary practices. Another example is the appointment at Cancun of the so-called "Facilitators" to chair negotiations in specific trade areas under the Doha Round and personally appointed by the Chair of the Ministerial Meeting, and responsible only to the Chair, in consultation perhaps with key participants. They were not elected by the delegations, as would be the normal case for such office bearers in an international conference. This practice seems acceptable to all participants. These negotiations were called "informal consultations" and participation was open-ended to all participants. But there have been complaints by NGOs that this was not so. The Chair of the Ministerial Meeting depended much on the facilitators to achieve consensus on the specific issues to which each was assigned and to report to the full meeting of the result for transparency. "Facilitators" have no official status. What they achieve and report likewise carry no status that can be carried forward, particularly when nothing concrete could be put down in words and print. Thus what the concluding statement of the Chair says about considerable progress being made in Cancun is just rhetoric without substance.

## **THE GREEN ROOM**

The so-called Green Room Consultation has become a hallmark of what observers claim to represent the kind of undemocratic practices going on in the WTO. The GATT Director General started this practice in the preparation for the last round but it was generally tolerated by the membership as a whole for most part of the round. No more now. The Uruguay Round has exposed the danger to a number of countries, particularly developing, of such a small and selective form of negotiations and way of reaching agreements. Agreements in the trade body carry commitments in the form of obligations and rights and often couched in difficult legal and technical language. There are two primary areas where commitments impact in the home economy. Trade liberalization calls for major adjustments of the economy. Where it is made in the form of legal constraints on domestic economic policy, it limits the freedom of economic activities that the government can plan for. If what the observers complained about were true, it would be difficult to understand how the Chair of the Green Room Consultations could expect some delegations to accept such implications when they were not present to give their view and position. If there were any attempt to wreck a consensus, such delegations would be among the first.

## **SINGAPORE ISSUES**

New issues such as those called the Singapore Issues, particularly trade and investment and trade and competition policy, can have very serious implications on their freedom to pursue an independent course of social and economic development. Nothing illustrates this negative aspect of the negotiations clearer than the agreement to proscribe local content as a requirement relating to foreign investment. This was an essential policy instrument of many developing countries including some rich countries to jump start industries. This prohibition originated from the demand of the US and other developed countries jumped into the bandwagon in the last round. Trims so far serves this purpose.

The exercise of the Organization of Economic Cooperation and Development or OECD in the early 1990s to conclude a Multilateral Agreement On Investment (MAI) is indicative with regard to the objectives of developed economies for such a multilateral agreement. The primary motivation is to obtain for their enterprises rights of free entry, free exit, establishment, most favoured-nation treatment and national treatment without any concomitant obligations on their part towards the host government concerned.

In one stroke of the pen an agreement of this sort could make meaningless what developing countries aimed to achieve in their social and economic development plan. Many of their policy measures aimed at building up indigenous industries either by their own steam or with foreign cooperation (e.g. with incentives) would be nullified or proscribed once a MAI-type agreement came into play and became an integral part of the WTO. Even with a MAI-type agreement it is doubtful that small economies can be guaranteed that foreign investments will come in to open up factories and establish industries. Developing countries might as well forget about pursuing any national development plan, particularly to build up indigenous industries in such circumstances. This is where there is a worry about sovereignty. Would such an arrangement be mutually advantageous? Developing members have become wise to the implications of proposals of this nature. They have rejected in the inclusion of the Singapore Issues like investment for good reasons.

There is a report that the European Union Commissioner concerned at Cancun has tried to link continuation of negotiation over agriculture with adoption of the Singapore Issues by developing countries. Anyone familiar with the negotiating history over agriculture will know that the Uruguay Round has already agreed on the manner by which the matter is taken up in the trade body. Agricultural trade, a vital sector for most countries, stands on its own track as an issue for negotiation that is an on going exercise by agreement reached in the last round. To any fair-minded participant in the WTO or observer, any attempt at this linkage becomes highly unethical especially to create a deadlock for tactical purpose, even if the move was tactically one to create an impression of an impasse.

It is said that EU subsidies on cattle amount to about US\$2 per head per day. When this subsidy quantum if true is considered against the fact that poor people in Africa and Asia in their millions have only a per head income about US\$1 per day, the attempt at linkage would become repulsive. To dedicate the trade body as it is done in the Preamble of the WTO Agreement in giving a priority to the development needs of poor countries and to acknowledge the need for effective efforts towards this end in the face of such maneuvering would be double talk.

There is no provision in the WTO Agreement about what manner negotiations should take apart from what the Preamble says of members entering into reciprocal and mutually advantageous arrangements to reduce tariffs and other barriers to trade, and elimination of discrimination. The GATT 1994 provides guidelines about reduction of tariffs in a negotiation. The trade body has inherited a good record of past experiences on the matter. It is, however, mainly up to the participating parties to decide

whether or not there should be any linkage in any trade areas or whether there should be one single undertaking linking all areas under negotiations. Normally these issues will be decided at the Ministerial Conference launching the round.

NGOs such as Oxfam have risen to challenge unfair practices in the WTO and world trade. This is an issue that becomes a rallying point for many of them. It is simply mind-boggling that the practice of the Green Room consultations can continue despite protestations from a number of WTO members over these few years. Developing countries that have been complaining about injustice in the trade body should not be a party to such restrictive closed-door proceedings. They should add their voice to the protests of their colleagues who have been shunted out for no valid reason other than their presence makes the negotiation unwieldy.

### **FAILURE AT CANCUN, CONSENSUS, AND ITS MEANING**

Can developing countries be blamed as culprits for failure at Cancun as some in developed countries including their press take such a view? Is there justification for the kind of threat now coming from the Chairman of the US Senate Finance Committee or manoeuvre to link agriculture with the Singapore Issues? Is the argument convincing coming reportedly about the Japanese telling Ministers of developing countries that they need a multilateral agreement on investment if they want to attract foreign investment? Should poor countries better listen to their developed counterparts if they want what is good for them as some in the western press advise? When matters are reaching a crisis point because of serious differences among the members, any observer wanting to understand the situation should look at questions such as those posed above against the purposes and functions for which the WTO is established.

The trade body unlike the GATT has an institutional framework or a constitution. Decision by consensus is a requirement under the framework. It is only when no decision can be arrived at by consensus, that voting is called for. The WTO Agreement, Article IX.1 provides the rules on voting. However, as explained in the footnote to the Article, a single member, present at a meeting where a decision on a matter is before a body of the organization concerned, can block a consensus by making a formal objection to the decision. Consensus here is pertinent when it comes to proposal for new issues to be included as parts of the organization. One of the WTO's functions is that it may be the forum for further negotiations among its members in matters concerning their multilateral trade relations, apart from those accepted as outcome in the Uruguay

Round, and to serve as the framework to carry out the results of such negotiations. The required decision is by consensus at a Ministerial Conference. This is the provision for reform to borrow the word from the press. However, consensus as defined in the Agreement is highly stringent. It needs only a single member to nullify or destroy a consensus, if he is present where the decision on a matter is before a body and formally objects to the decision.

Consensus, as it is meant to be, is inclusive and thus a slow-going process. It requires a structure that allows a series of consultations and exchanges of views among the members to take place. Trust, mutual respect and camaraderie among participants provide the lubricants towards the road to consensus. Leadership of the Chair and assistance from the Secretariat and its impartiality to clarify difficult issues at hand are important prerequisites. Old practices of the GATT that run counter to the way will not hold.

Trade rules arrived at in the WTO carry legal rights and obligations. This is much unlike the functions of many other international organizations. These rules normally come about as a result of negotiations among the member countries at rounds of trade negotiations such as the Uruguay Round and now the Doha Round, apart from the exchange of concessions on tariffs and other border barriers to trade. They also come about as a result of demands for new issues to be added in the negotiations. It is a fact of life in any organization that when major partners ask for new rules, it is with the purpose of using them towards their advantage. As preparation for the Uruguay Round has shown these demands were initiated by their multinationals to serve their particular trade interests in a number of trade areas. Multinationals in these countries meet regularly to maintain a concerted and combined interest on the progress in the WTO and as pressure groups on their authorities.

Market access is becoming less of a problem as trade barriers because of tariff reductions taken in the 8 rounds of trade negotiations except in the area of agricultural trade, tariff peaks in certain developed nations and comparatively still high tariffs in a number of developing countries. As border barriers to trade are becoming less important because of progressive liberalization, the negotiation strategy of certain developed nations such as the US is increasingly aimed at internal economic policy, e.g. where possible to proscribe commercial and industrial policy measures they no longer need but still important to developing economies, industrial targeting by emerging economies and any would-be followers. The main argument from developed economies and their economists is that such measures are trade distorting. Political leaders in poor countries have bigger problems



than trade distortion to worry about when they undertake such measures to improve the economy or to redistribute income. The trend of negotiations in the WTO is rule making.

## **CONCLUSION**

As the press reported one important factor in the failure at Cancun seems to be a show down between developed nations on one side and developing countries on the other over the Singapore Issues. When differences among negotiating parties manifest in such a form serious difficulties lie ahead. The development if true will show that there is an incipient North-South divide. Once this becomes entrenched in the WTO negotiation process, woe betides the organization. One is reminded of the years of stalemate at the United Nations Conference on Trade and Development. The organization could well do without the sort of division among the members as the press reported of the event at Cancun. Apparently conduct of the negotiations was partly at fault. The trade body could not operate in such a situation. It would not be acceptable to the outside world and the political masters at home.

Recent developments in other international organizations show what certain major powers can do if they find themselves frustrated by others in the pursuit of their ambitions. Here they may try to strengthen regional trading arrangements. They may create more bilateral free trade agreements with individual countries. However, such options are no substitutes for a multilateral approach in trade. They can play complementary role. They are second best to use other words. Regionalism or bilateral free trade agreement cannot create better conditions for wealth and growth than what a world trade body like the WTO can provide, particularly in present day globalization. The politics in the trade body and among some of the major members is such that none could predict with certainty how the scenario would develop. The event at Cancun did create an air of uncertainty something similar to the GATT before the Uruguay Round. Pessimists would say, this is bad for world trade.

Trade rules made in the trade body form the basis of the world trading system. Rules, according to principles of law, are meant also to protect the weak, and provide justice. However, if these are lopsided against the trade and economic interests of poor members when the WTO is meant to give them a priority in the matter, the resulting outcome is one of blatant injustice. Once this is part and parcel of the trading system injustice is institutionalized as a norm. Developing countries are aware of the situation. No sensible people can expect them to accept such a working condition

in any international organization. Gratuitously in rule making in the trade body they find it easier to reach common position and to unify to face the hard line of some developed countries.

There seems to be no easy answer to the deadlock over the Singapore Issues. The Doha Round is stuck because of this impasse and would not move unless this is resolved. The General Council meeting at Senior Officials' level is asked to take over what the Ministers at Cancun could not bring about. The Ministers at Cancun were asked to achieve what officials in Geneva could not. This might look to outsiders highly confusing, like passing the buck or worse, the trade body going around in a circle.

# **SOCIALIST VIETNAM PURSUES GLOBALIZATION: FROM ‘DOI MOI’ TO THE ASIAN FINANCIAL CRISIS**

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**Abstract.** In 1986 Vietnam’s leadership began to pursue reforms that would eventually include a global focus to its “*doi moi*” market oriented development strategy. The reforms moved the economy away from a Soviet style, centralized structure that was put into place after 1975. Vietnamese scholars who began to examine the reforms noted that they were likely to be beneficial. However, they noted that risks were associated with Vietnam’s diplomatic decisions to seek external institutional affiliations with the Association of Southeast Asian Nations (ASEAN) and Asia Pacific Economic Cooperation (APEC) as well as its pending accession to the World Trade Organization (WTO). Vietnamese officials who were responsible for the country’s foreign relations joined their academic colleagues in the examination also became aware that externalizing reforms carried risks as well as potential benefits. This paper analyzes the benefits and risks, particularly the problems of income and wealth distribution and endemic poverty that accompany *doi moi*’s global dimension. It concludes by noting how the government might minimize costs and maximize benefits in the context of a development strategy that proceeded “as though people matter.”

## **I. Introduction: Why Vietnam Began Pursuing Reform With Globalization**

During the late 1980s the Government of the Socialist Republic of Vietnam began to pursue a development strategy that moved the economy away from a Soviet style centralized system toward one featuring decentralized markets. It eventually extended the strategy to involve diplomatic and foreign relations outreaches to the Association of Southeast

Asian Nations (ASEAN) and the Asia Pacific Economic Cooperation (APEC) and government seeks accession to the World Trade Organization (WTO). Three fundamental factors compelled the country's leadership to opt for this course of action as a part of *doi moi* even though some thought that this course of action was ideologically distasteful and fraught with risk. First, during the 1980s, Vietnam's economic partners (the former Soviet Union, German Democratic Republic, Yugoslavia and Czechoslovakia) experienced persistent economic failures and faced national disintegration. Vietnam held membership in the increasingly dysfunctional Congress for Mutual Economic Assistance (CMEA) leading to isolation from the broader global economy and, as a result, the Vietnamese dong remained convertible only into the *globally non-convertible* Soviet ruble. Second, Vietnam's Southeast Asian neighbors were experiencing widespread, rapid economic growth accompanied by political stability due in part to their joint participation in ASEAN and APEC. Third, Vietnam's economy was failing persistently and irreversibly; per capita income was declining, incidences of poverty and deprivation were growing, the infrastructure was deteriorating and prices were soaring annually (including for rice and other agricultural outputs that were in short supply). Capital stocks were eroding as annual private and public investments fell sharply, causing both production and employment levels to decline—and *prospects for reversing these trends were virtually nil*.<sup>1</sup>

These factors convinced Vietnam's socialist planners that clinging to the *status quo* was intolerable and they began examining seriously both Vietnam's economic failures, those of its CMEA partners and the successes of its regional neighbors. The examination convinced both the National Assembly and the Office of the Prime Minister of the need to escape ideological boundaries and seek practical ways of moving towards an economic structure that would still be guided by socialist principles even while the market system was introduced. The examination also convinced the Sixth Party Congress of the Communist Party to accept the principles of *doi moi* at its 1987 meeting. After considerable discussions *both* government and party leaders ended decades of isolation and embarked on an array of economic reforms.

*Doi moi* reforms not only introduced the market mechanism but they also legitimized private property, privatized State Owned Enterprises (SOEs) and struggled to put into place a supportive legal system. Macro economic management was improved on both the monetary and fiscal fronts, reforms opened Vietnam to the outside world and all of this spurred the development of basic legal, tax and regulatory infrastructure changes.<sup>2</sup> The reforms presented the country's leadership with enormous administrative tasks and consequently *doi moi* proceeded slowly but without reversal. By early 1990s the only policy area that awaited reform was the external sector; that is, capital flows, foreign investment and international trade.<sup>3</sup> The wait was not a long one because at a 1991 meeting involving official development assistance (ODA) donors and Vietnam's government, Prime Minister Vo

Van Kiet pledged that Vietnam would pursue external liberalization and bring his country into the emerging global economy. During the regimes of Vo Van Kiet and his 1992 successor Nguyen Dy Nien, external reforms began to take shape in two ways. First, the dong was made convertible with the Singapore dollar, Thai baht, Japanese Yen and the Australian and United States dollars. Second, reforms began to relax legal and administrative impediments to trade, and the government took steps to welcome foreign investment and financial capital transfers.<sup>4</sup>

The government's reform agenda was ambitious and unambiguous and, as Prime Minister Nguyen Dy Nien pledged in 1998, its focus would be on "...integration with the rest of the world by maintaining relationships to 'big countries and neighboring countries' while giving special attention to 'traditional ties and the non-aligned movement'"<sup>5</sup> His statement acknowledged that Vietnam's past associations remained important but the ultimate direction of the reform agenda would be Vietnam's integration with the global economic system. In 1999, his statement was reiterated by Trade Minister Truong Dinh Tuyen who said: "Vietnam is determined to continue implementing open door trading policies and has mapped out the road to honour its commitments to global and regional trading initiatives." He knew this meant "...making economic sectors more competitive is a major challenge as the country integrates into the global economy."<sup>6</sup>

Making economic sectors more competitive requires finding ways to blend the attributes of Vietnam's work force and physical environment with physical and financial capital and industrial technology obtained from global markets and allocating them to the production of exports, import substitutes and non-traded goods. This process could lead to a problem if gaining competitive edges creates economic enclaves that give rise to dysfunctional relations among Vietnamese who are separated by culture, ethnicity and economic class. Exacerbating cleavages and inequalities among Vietnamese is a serious matter, and it is one that foreign economic interests may be neither willing nor able to understand and confront. Therefore simultaneously pursuing global competitiveness, export led growth, equitable distribution and poverty eradication is the responsibility of Vietnam's political and intellectual leadership *and to them only*.<sup>7</sup>

## II. Globalization's Positive and Negative Features

Vietnamese scholars and public officials began to evaluate the nature of economic reform early in the 1990s. They recognized the same positive and negative features of globalization as did their thoughtful counterparts elsewhere. In 1992 Nguyen Duy Quy and Vu Hien challenged the basic methodology underlying government's approach to reform by arguing that *very clear and useful* reform objectives must be articulated. Over the next five years their challenge was picked up by a number of other Vietnamese

scholars including Nguyen Tri Dung. In 1997, he argued persuasively that there must be three main objectives inherent in *doi moi*'s external dimension. They are: globalization should be pursued only when it would (a) increase exports that would narrow annual trade deficits, (b) enhance the country's ability to attract foreign investment and (c) support productivity growth enhancement, particularly of exports.<sup>8</sup>

The objectives articulated by Nguyen Tri Dung provided the intellectual foundation for the pursuit of benefits and, as he and others quickly noted, the avoidance (or at least minimization) of costs as well. The intellectual discourse continued as Vu Viet Ngoan, among other Vietnamese scholars, recognized that global contacts carried both opportunities and risks (or costs). On the one hand, the contracts bring opportunities to the world economy and to individual nations for four reasons. First, global integration facilitates the development of comparative advantage, promotes the international division of labor and enables participating countries to benefit from reasonable international resource allocation that harness the capacity of productive resources. Second, liberalizing trade in goods and services and investment, lowering tariff barriers, simplifying procedures and reducing administrative controls promote investment, raise output, reduce unemployment and serve consumer interests. Third, global linkages create new investment opportunities, accelerate the flow of capital and industrial technology and enhance efficiency that improves investment climates by reducing the risk of commercial failure. Fourth, global integration, beyond promoting investment, also leads to the transfer of management and other skills as well as makes available critically important knowledge and information about production and distribution processes.<sup>9</sup>

More recent scholarly works by Suiwah Leung and Tran Van Hoa argued that Vietnam is drawn further into the global system because it requires resources, technology, market access, capital and, perhaps most importantly, it requires information and knowledge from foreign sources.<sup>10</sup> A World Bank report recently reiterated this point by stressing the importance of the relationship between knowledge and information and development. The report called attention to two types of information: first, information (knowledge) about technology-not only technical knowledge related directly to productivity but also to matters such as knowing about nutrition, birth control, public health, information technology and sustainable development. Second, it focused on knowledge and information about such "attributes" as access to external markets and resource supplies, product quality, worker productivity and physical infrastructures (e.g. transportation, communication, potable water and sanitation facilities, energy grids and banking and financial resource development). It went on to note that when information is acquired, two companion steps need to be taken in recipient countries.

One is absorbing knowledge and information through broadly shared access to education and training. Another is communicating knowledge and information via more advanced communication networks.<sup>11</sup>

On the negative side, Vu Viet Ngoan and others stressed that when Vietnam opted for external contacts, it implicitly assumed four serious risks. One risk is inherent in the persistent instability in world financial markets wherein unstable financial capital flows can adversely affect a country such as Vietnam. The reason centers on the main difference between direct foreign investment and financial capital. Direct foreign investors, once they have disbursed their funds to build factories and purchase equipment, cannot undo their investment quickly. Portfolio investors have more flexibility due to the high degree of transferability of security purchases and the short-term nature of bank loans. They can opt out of a country rapidly and cause what has been called a "disorderly financial retreat." In addition, financial capital is unequally distributed globally and centers in large industrial and financial countries. In good times, capital flows from these centers to developing countries such as Vietnam but when signs of instability begin to emerge, the flow of financial capital reverses and quickly returns to the wealthy investor countries. A vivid example of this phenomenon occurred in Thailand in July 1997 when a "disorderly financial retreat" took place and this triggered the Asian financial crisis that eventually harmed Vietnam and other Southeast Asian nations.

Ngoan identified a second risk: global contacts mean that some countries run the risk of lagging further behind more developed countries because they cannot manage to make use of the potential benefits from integration within the international trade and international financial markets. A third risk is that Vietnam could become so dependent upon more powerful and wealthier countries that national sovereignty might be compromised. The fourth risk that he warned about is that multinational corporations located in large and powerful industrial countries are linked horizontally and vertically through direct foreign investment to a vast array of global markets. This phenomenon leads to international divisions of labor and global economic power, and there is a risk that power will be exercised in ways that worsen inequality and fail to confront persistent poverty *both* globally and within developing countries such as Vietnam.<sup>12</sup>

An additional risk has to do with environment effects of international trade and direct foreign investment. Traded goods that are produced for export markets by a combination of foreign capital and domestic partners could challenge the sustainability of economic growth by depleting natural resources *and* having a negative impact on human health due to urban pollution. Le Quy An called attention to the combined impact of globalization,

industrialization and urbanization. In Vietnam's cities they created high dust density, carbon dioxide levels that range from six to ten times "normal" levels and volumes of sewage that threaten both sanitation facilities and potable water supplies.<sup>13</sup>

Despite risks, Vietnam's political leadership persists in a course of action initially articulated by President Kiet and consistently supported by key government officials including the new Trade Minister Yu Koan who was a keen advocate of normal trade relations with the United States. Yu Koan was instrumental in bringing about the recent Normal Trade Relations (NTR) agreement between the United States and Vietnam, a key step toward WTO accession.

### **III. Vietnam and ASEAN, APEC and the WTO**

Hoang Thi Chinh pointed out that when Vietnam gained accession to ASEAN on July 28, 1995 it took a major step toward more "openness" with its Southeast Asian neighbors. The result was that two-way trade between Vietnam and the remainder of ASEAN doubled from 1994 to 1997. At the same time, ASEAN countries became a progressively more important source of direct foreign investment into Vietnam.<sup>14</sup> This step marked a significant move toward the country's increasing "openness" because when Vietnam joined the Association at its Fifth ASEAN Summit in Bangkok, it agreed to reduce tariffs on imports from other ASEAN countries. The government confirmed that it would prepare a list of manufactured goods for tariff reduction, it would phase in agricultural products for eventual reduction and provide relevant information on its trade practices when requested by ASEAN.<sup>15</sup> In exchange for agreeing to "open" its domestic markets, Vietnam stands to benefit by the way that ASEAN mechanisms work in ways that aim at expanding exports and encouraging direct foreign investment.

On the trade front, the country's producers will gain access to Southeast Asian markets by the way that the ASEAN Free Trade Area (AFTA) and the Common Effective Preferential Tariff (CEPT) system work. The CEPT governs internal tariff reduction or elimination among member countries. Basically the system will lower tariffs on most items (other than those placed on the temporary exclusion list) to between 0 and 5 percent by 2003 for the six older members (e.g. Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand). The average tariff for intra-ASEAN trade among the six was to decline to 4.59 percent in 1999 and 2.63 percent in 2002. By the year 2000, 60 percent of all tariffs will be eliminated, but it will not be until 2015 that every tariff will be eliminated for the



six older members. The four newer members (e.g. Cambodia, Laos, Myanmar (Burma) and Vietnam) are accorded three extra years to become "tariff free". Importantly, there are escape provisions aimed at lessening the severity of a serious negative impact that would result from strict adherence to the fast and normal track annual installments of tariff reduction. Under these circumstances, seriously affected items are shifted to the temporary exclusion list in order to provide more time for need domestic economic adjustments to take place or they may be put on either the sensitivity or general exception lists and thereby relieved from tariff reduction mandates. In 1998, 1,718 Vietnamese products were on the inclusion list, 1,141 were temporarily excluded and another 154 were either on the sensitivity list or were granted general exemptions. But by the end of 2001 a total of 4,830 items were included, 1,200 received temporary exclusion and 253 items were considered sensitive or worthy of general exemption. More and more products from Vietnam will clearly be included within ASEAN's aim to meet all target year goals. In order to lessen the impact on Vietnam and the other less developed member countries, the more advanced members pledge to assist the less developed ones via programs designed to improve physical and social infrastructures and human resource bases.<sup>16</sup>

Vietnam has kept its word on trade issues: by the end of 1998 it was in compliance with Association rules and procedures in all respects. At the end of 1998 its tariff reduction program covered 1,719 items accounting for 53 per cent of the categories covered under the AFTA/CEPT scheme. As a result, the 12th Conference of the AFTA Council held in Manila on October 7, 1998 acknowledged that Vietnam had fully complied with the stipulation to which it agreed in 1995. On the investment front, ASEAN offers the following mechanisms designed to encourage direct foreign investment (and the industrial technology that investments contain).<sup>17</sup> Older ones are the ASEAN Industrial Projects and ASEAN Industrial Joint Ventures; newer ones are the ASEAN Industrial Complementation and the ASEAN Investment Area scheme. Since disputes are certain to arise on occasion, the Association tries to resolve trade, investment and property rights disputes through two mechanisms. One is the ASEAN Dialogue Partnership System (ADPS) involving each of its more important global partners and another is the Post-Ministerial Conference (PMC) scheme. At the conclusion of ASEAN Ministerial Meetings, conferences are held with key ministers from ADPS partner countries in order to avoid disputes at high diplomatic levels.<sup>18</sup>

ASEAN trade, investment and conflict resolution mechanisms are important to Vietnam and this is why Vietnam has become a strong and committed member of the Association. In response to Vietnam's enthusiasm, ASEAN held its 6th Summit in Hanoi on December 15-16, 1998. At the

meeting Association members adopted the Hanoi Declaration and the Hanoi Plan of Action, each a declaration of mutual support among members for each other's development efforts—including assistance beyond trade, investment and dispute settlement via human resource development assistance.<sup>19</sup>

ASEAN membership set the stage for another step on the road to global integration when Vietnam gained accession to APEC at its meeting in Chicago in November of 1998. Not only did this step offer a road to “normalization” with the United States, but it also permitted closer economic contacts with Russia that gained APEC membership along with Vietnam in 1998. Hoang Thi Chinh pointed out that APEC involves a large geographic area and population that is generally highly developed with a rich potential for further economic growth. APEC members presently account for over 80 percent of Vietnam's two-way trade, almost 70 percent of all foreign investment that is made in the country and more than 50 percent of all official development assistance that Vietnam receives annually. Two-way trade between Vietnam and APEC members grew from 13.6 billion US\$ in 1996 to 15.7 billion US\$ in 1997. Despite the on-set of the financial crisis of 1997-1998, and during the first nine months of 1998—the depth of the crisis—two-way trade was actually over 12.0 billion US\$ and by year's end it exceeded 16 billion. The crisis did not dampen Vietnam's enthusiasm for participating in open, free trade within Southeast Asian and the broader Pacific.<sup>20</sup>

Government officials and Vietnamese scholars agree that by joining APEC, Vietnam is able to enjoy other advantages. It finds it easier to acquire Most Favored Nations status and/or Normal Trade Relation agreements with key trading partners, to gain access to a large market of export destination and to attract more direct foreign investment from developed APEC countries. Vietnam also is in a position to gain improved access to productive resources, industrial technology and information and knowledge. In particular, it can do so via three APEC institutions: the Individual Plan of Action, the Collective Action Plan and the Economic and Technical Cooperation Program. Another useful aspect to APEC membership has to do with the participation of Vietnamese business owners and managers and government officials in the Pacific Economic Cooperation Council (PECC). Via the Council, managers and officials gain access to technical knowledge and information about production and distribution, make global contacts leading to market expansion *and* improving worker attributes through training and on-the-job experience.<sup>21</sup>

APEC's major goal throughout the 1990s was “free trade within the region” but at the group's leadership meetings held in Osaka and Manila

during 1995 and 1996, the scope broadened to embrace issues beyond trade. While the central focus was on trade and investment liberalization and trade and investment facilitation, the 1996 Manila Action Plan emphasized human resource development—a very critical need on the part of many Vietnamese workers. The 1997 APEC leadership meeting in Canada broadened the organization's focus to include infrastructure development (a very important matter in Vietnam) and other issues such as the problems of women and youth particularly as they relate to skills acquisition. However, the 1997 Asian financial crisis relegated these issues to a lower priority, at least temporarily. Subsequent APEC meetings have not dismissed the need to provide attention to issue beyond trade and investment liberalization. However, it has failed to take fundamental steps to confront challenges to equitable and sustainable growth in poorer member countries despite the fact that broader *real* efforts to assist members such as Vietnam in their infrastructure, human development and other development efforts are essential.<sup>22</sup>

APEC could do much more because it operates via a relatively small, efficient staff of professionals who are seconded from member country governments. They provide liaison functions with a number of working groups ranging from Human Resource Development, Telecommunications, Trade and Development and a set of ad hoc committees that are periodically created to perform specific functions. Participation in the secretariat and on working groups and ad hoc committees offers Vietnam opportunities to call attention to their specific development needs, ones that go far beyond simply liberalizing trade and development.<sup>23</sup>

The Government of Vietnam intends to complete the process of globalization by gaining accession to the World Trade Organization (WTO) that promotes trade on a non discriminatory basis that is void of national bias and fosters direct investment and capital flow liberalization among countries. As a WTO member, Vietnam's markets must be open and therefore sufficiently competitive if the country is not to fall further behind more advanced countries. In its drive to become more competitive, Vietnam has an interest in seeing that ASEAN and APEC and other institutions such as the Asian Development Bank (ADB) offer assistance in its efforts to confront the array of structural constraints to improving competitiveness. Even though the WTO provides little assistance beyond liberalizing trade and investment regimes, accession to the WTO remains important to Vietnam's leadership and in August 1997 a research and consultative committee on WTO membership was established under the chairmanship of Trade Minister Truong Dinh Tuyen.<sup>24</sup> The committee's task was to prepare Vietnam's response to WTO institutional requirements and the Minister met with the Organization's representative in Geneva in July

1998. The Minister and his committee members responded to more than 100 WTO questions on matters ranging from macro economic management policies, tax policies, a national remuneration system, protecting the rights of enterprises to engage in business in Vietnam, and lowering non-tariff barrier issues.<sup>25</sup>

The WTO found Vietnam's responses to be clear, qualitatively sound and useful as a foundation from which to negotiate further on the country's accession petition to the Organization. Vietnam's official response indicated that it wished to continue pursuing accession, and that it was, in general, willing to accept WTO rules and regulations. This meant that the government expressed a willingness to reduce (and ultimately abolish) non-tariff barriers, gradually reduce tariff rates, liberalize further its regulations on investment and agree with other WTO mandates. The government is prepared to do so because accession will provide Vietnamese enterprises with improved access to markets beyond Southeast Asia and the Asia Pacific region, particularly in the Middle East and South America. Kym Anderson made the point that Vietnam's accession to the WTO provides the country with opportunities for export growth in clothing and textiles as well as greater certainty of overall market access as the economy develops comparative cost advantages in other lines of commerce. The speed and magnitude of the benefits will largely depend upon Vietnam's preparedness to abide by WTO rules and timetables. Once an agreement begins to be implemented, he pointed out, more jobs will be created, more poverty will be alleviated and a more equitable distribution of income will emerge. Anderson went on to contend that some urban workers will be displaced as a cost of adjustment because they will lose their jobs in highly protected industries as trade barriers are lowered. However, many workers who are displaced by WTO inspired reforms will find jobs elsewhere, often at higher wages based upon increased productivity in response to international competitive pressures. In addition, reforms are likely to generate a net increase in overall demand for labor and this will offer work opportunities to migrants from rural areas and to under-employed urban workers.<sup>26</sup>

When a country such as Vietnam joins ASEAN, APEC and applies for WTO accession, it does so "to catch up" with other countries by becoming sufficiently competitive and thereby expanding exports, national income, output and employment as well as controlling inflation. Within this context, a primary complaint that Third World countries lodge against the WTO is that its agenda is not directly related to development and the extraordinary challenge that "catching up" entails. Another complaint is that the WTO is unnecessarily intrusive (consider that 100 questions were posed to Vietnamese officials) and this reflects an assault on national sovereignty. These complaints underscore why Vietnamese and other Third World

officials view the WTO as an aloof institution that is distinct from other, more supportive of multinational institutions such as the United Nations Conference on Trade and Development (UNCTAD). The differences in the agendas of the WTO and UNCTAD were exposed very clearly at the UNCTAD X meeting held in Bangkok, Thailand from February 12-19, 2000. The Bangkok meeting noted that UNCTAD's agenda centered on two important foci: first, policy and program analysis and deliberation; and second, technical assistance transfers.<sup>27</sup>

Vietnam's scholars who evaluated *doi moi* and its external dimension through accession to ASEAN, APEC and the WTO conclude that there is virtually no chance that the Vietnam's government will retreat from its current course of action and that the approach contains both benefits and the risk of costs. Their observations made it clear that the challenge to decision-makers is not only to pursue internal reforms and external openness designed to "catch up" with other countries, but also to lessen threats to sustainable development, challenges to social and cultural integrity, and tendencies toward economic inequality, poverty and deprivation.<sup>28</sup>

#### IV. THE RECORD: GENERATING BENEFITS AND MINIMIZING COSTS

Available macro economic data indicate that government policies have contributed to reversing the negative growth trend of the pre *doi moi* era. The magnitude of Vietnam's economic progress, measured by growth in real gross domestic product (GDP) and moderation in inflation rate over the 1987 to 1998 period was substantial. Available data show that GDP's growth was -0.5 percent during 1987 when inflation rose by 125 percent. From 1988 through 1998 GDP grew by a reported average of 7.5 percent and inflation was reduced to single digits during the latter part of the 1990s. In addition, employment, personal income and consumption prospects continued to improve for many, but not to all Vietnamese.<sup>29</sup>

Economic progress occurred as the economy became progressively more open. Its "Openness Index," which is calculated by dividing a country's gross domestic product (GDP) into the additive value of its exports and imports, was 0.14 in 1987. It rose to 0.27 in 1988 and then to 0.38 in 1998, the year the Asian financial crisis began to have an impact on Vietnam. Vietnam's more open economy grew steadily from 1990 to 1998 because, in addition to internal reforms, external global contacts provided the country with foreign exchanges by which to finance its annual current account deficits, because spending on imports continued to exceed earnings generated by exports. Direct foreign investment provided the foundation

for production of exports, import substitutes and non-traded goods. Official development assistance and balance of payments support financed improvement in the country's social and physical infrastructure. However, despite the benefits that were generated, a number of problems continue to plague Vietnam. Most of the problems have to do with structural inadequacies on the one hand and performance shortcomings on the other, and dealing with them elevates designing and implementing measures to confront them to the highest level of public urgency. According to David Troung and other Vietnamese scholars, the profound need for government to undertake added measures creates the need for a *doi moi II* era.

## V. Measures Designed to Minimize Costs and To Create More Beneficiaries

Distribution inequities and widespread poverty have accompanied growth and this raises the matter of creating more beneficiaries among Vietnamese citizens even though substantial poverty eradication took place during the prolonged growth period: during the 1990 to 1993 growth period, the country's estimated overall poverty rate was 58 percent. Incidence of poverty measured by food deprivation was 25 percent. By 1998 overall poverty declined to 37 percent and food poverty dropped to 15 percent. At the same time, Vietnam's human development index (HDI) improved from less than 500 during the 1990 to 1993 period to 560 in 1995, and then to 660 in 1998. Despite substantial poverty eradication and improved human development, relatively high poverty rates and relatively low human development *remain*. Vietnam's population of about 82 million means that overall poverty affects some 27 million Vietnamese and 13 million of them go hungry and malnourished. Poverty and hunger *remain the most serious performance shortcomings confronting* Vietnam's leadership.<sup>30</sup>

Finding the poor in Vietnam is not difficult because they live mainly in rural settings: in 1993, the urban to rural poverty ratio was 1:6 but by 1998 it had grown to 1:10.<sup>31</sup> Their poverty stricken lives stand out because they are among the 25 percent of all Vietnamese households living in deprivation so pronounced that they could not afford to provide 2,100 calories of food per person even if all of their income was spent on foodstuffs. The rural poor tend to live in larger family units with a large number of old and young dependents. They are more likely to be illiterate, have fewer years of schooling, have less access to credit and own less property. As a result, a 1999 survey found that the average monthly income in all of Vietnam stood at VND 295,000 but in large urban areas it was VND 832,500 while in rural areas it was VND 225,000. In addition, while the overall per capita income growth from 1996 to 1999 was 4.8 percent annually, it reached 13.1 percent in the large metropolitan centers but it only climbed by 1.3 percent in rural regions.<sup>32</sup>

As a result of the growth pattern, ninety percent of all poorer households live in rural areas and younger members immigrate to urban areas at every opportunity. They bring with them minimal skills and low productivity and swell the ranks of the urban poor. Tran Van Luan pointed out that successful urban immigration was complicated by the fact that in 1998, while formal education led to a nation-wide basic literacy rate of 94.25 percent, in rural areas it was slightly lower at 93.43 percent. Worse yet, Tran's 1998 data showed that, based on their educational experiences, 12.31 percent of the total population was trained in useful skills but in rural areas only 7.77 percent of the population had skills that were useful in a modernizing economy.<sup>33</sup>

While poverty eradication has joined "catching up" at the top of the "list of things to do", Vietnamese scholars identified structural obstacles that must be dealt with if poverty reduction and economic modernization efforts are going to be successful. Tran Van Hoa pointed out these weaknesses: policy generating *and* implementing structures are weak, regulatory systems are vague and often contradictory and the legal system, while improved, remains seriously underdeveloped and is inadequate as a means for settling disputes on consistently reasonable bases. In addition, bureaucratic red tape, high and growing levels of public corruption and abuse of power, and a haphazard taxation system that is constantly changing makes conducting economic activity in the country an adventure. Banking decisions proceed without sufficient concern for prudential lending and transparency. Production and consumption patterns contribute to environmental degradation and urban pollution—and resource preservation and human health protection efforts remain inadequate.<sup>34</sup>

Despite these persistent structural weaknesses Vietnam's GDP averaged an annual average growth rate of slightly more than 8.0 percent from 1990 through 1997 and then during the 1998 to 1999 crisis growth slowed to 2.7 percent.<sup>35</sup> Despite nearly a decade of steady growth and signs of recovery during late 1999 and early 2000, Vietnam remains among the lowest 25 percent of the world's countries in per capita income—no more than \$US 300 per year.<sup>36</sup> National and personal poverty moved David Troung to contend that dealing with deprivation and "catching up" requires a governmental commitment to structural reforms that "...will need to be more comprehensive and targeted at basic institutional changes and processes."<sup>37</sup> Troung argued that the government needs to build and shape long-term flexible organizations out of a rigid system that is characterized by party-state conflict, widely divergent viewpoints and policy inconsistencies. This requires a cadre of personnel with skills appropriate and senses of social commitment because designing and implementing new reforms means that "*...doi moi I*" will have to be broader in scope and deeper in impact if it is to be credible."<sup>38</sup>

The challenges articulated by Troung coincide with the 1998 appointment of a new Prime Minister, a new President and a new Secretary General of the Communist Party. The transition within the country's senior leadership offers renewed opportunities to seize policy initiatives and deal credibly with the profound difficulties that stand in the way of long term, sustainable development with equity in distribution and poverty eradication. Credibility takes on added importance when one considers a point made by Adam Eford who queried whether the government could claim credit for past successes in improving living standards and creating a sense of national optimism. He questioned whether the country's achievements resulted from good policy-making and effective implementation, *or* whether progress took place simply because bad or neutral policy-making and implementation did not matter in the face of more influential forces. Eford pointed out that Vietnam's decision-makers cannot rely on fortuitous forces in the future because the problems it faces are too profound for good fortune to play a dominant role, particularly with problems of poverty and distribution being so pronounced.<sup>39</sup>

Tuong Lai raised a serious question about the economic and social results of how the economy of Vietnam has been managed: how have the social positions of so many people changed rapidly as they take advantage of opportunities? He raised the point that some became *nouveaux riches* while many others were unaffected, and still other Vietnamese ceased to advance or actually regressed to lower material and social positions.<sup>40</sup> Thaveetport Vasavakul observed that government initiatives are increasingly seen as neither credible nor successful in dealing with Lai's point. Vasavakul contended that "Rural unrest in 1997 signaled the failure of the political system to handle economic conflict and abuse of power by local officials."<sup>41</sup> A fundamental question is: what credible, specific human resource development and other measures can government undertake in order to address deeply rooted causes of inequality and poverty among Vietnamese while at the same time focusing on export led macro economic growth?

No one measure can be successful in addressing the causes of poverty in isolation, and two key steps have to do with strengthening education and training capacities and social and physical infrastructures. *First*, an optimal education and training strategy is one where (a) social returns exceed social costs optimally and (b) formal and non-formal education fits into the total process of developing and allocating human resources in accordance with market requirements and poverty eradication within the national economy's various segments.<sup>42</sup> Primary education provides labor skills that support basic services in tourism, agriculture (e.g. horticulture and animal husbandry as well as marine resources) and other basic industries. Vocational education provides the same kind of skill training *and importantly*



it also strengthens the productive capacities of workers who labor in the rural agricultural sector and who perform basic roles in supplying non-traded goods and services. Secondary education provides the skills needed to produce more advanced exports and import substitutes. Advanced secondary and tertiary education trains and educates workers whose advanced skills are required in the production and distribution of an array of goods and services.<sup>43</sup>

Vietnam's relatively well educated labor force is a primary contributor to the country's accomplishment and it stands to make contributions to macro economic progress in the future.<sup>44</sup> A number of obstacles to human development remain to be confronted: a high population growth rate, a relatively young and rapidly urbanizing population, a large rural work force that is unskilled and deprived of sources of information. A large number of urban immigrants are both young and unskilled and they combine with refugees, disabled veterans, demobilized soldiers and persons made unemployed due to shifts from State Owned Enterprises to private sector firms to make up a large, relatively disadvantaged pool of labor.<sup>45</sup>

Gaining access to basic skills is important because as Vietnam's transformation continues the socialist model will likely fall further into disrepute. The market model remains triumphant because '*doi moi* I', despite its shortcomings, provided more food, consumer goods and purchasing power as a result of doing away with obstacles to producing, exchanging and allocating land and other resources. The gains mask tensions and contradictions that exist among people whose lives have been enriched, as Lai noted, and those who remain in excluded groups—particularly the rural poor. The changes that took place substituted traditional reciprocal exchange relationships by distribution principles contained in the market model, and closing the gap is important and trying to do so begins with locating the poor and identifying their needs and meeting them.

Beyond education and training, the poor have other needs and one of them is gaining improved access to strengthened physical and social infrastructures if those improvements are to lead to more productive workers. Recent studies report on the pronounced lack of access to physical infrastructure items (electricity, potable water, sanitation, communication and transportation), particularly for poorer people who live in the more isolated areas. Another array of studies found that access to effective social infrastructure services (health care, potable water and sanitation, food, shelter as well as education) was a serious unmet need on the part of both rural and urban poor people. Infrastructure shortcomings remain among the more serious obstacles to economic progress throughout the country and strengthening them is an important adjunct to improving the country's human resource base.<sup>46</sup>

## VI. Summary and Concluding Observation

From 1987 through 1999 Vietnam experienced macro economic growth through external "openness" and this reduced poverty and improved human development. The country's global affiliations with ASEAN, APEC, and eventually the WTO will therefore not be abandoned. Despite impressive improvements that are associated with globalization, structural weaknesses abound, education and human development needs improvement, inadequate physical and social infrastructures hamper growth, high incidences of poverty remain and extreme inequalities in income and wealth distribution persist. The post Asian financial crisis challenges are: (a) to reduce structural weakness, (b) to improve social and physical infrastructures and broaden access to them, (c) to maintain external openness that is essential to macro economic growth and (d) to confront poverty and distribution issues through sound development strategies and policies. Strategies and policies designed to meet the challenges will necessarily be incremental for four reasons. First, institutional linkages to the global economy will not be reversed; second, the current structure of global power will not change substantially; third, the international division of labor that it produces will remain in tact; and fourth, massive social change in Vietnam will not be forthcoming.

Boothroyd and Pham noted that policies fall into two categories. Economic policies focus on expanding the supply of goods and services but do not address adequately the social costs that are associated with production. The aim of *social policies* are "... to serve human beings; in other words, to be people oriented."<sup>47</sup> The Government is beginning to meet the challenge that confronts the architects of *doi moi II* by combining social and economic policies, and a good example is the government's 1998 avowed commitment to a seven-point development strategy. It centers on (1) improving economic management and competitiveness, (2) strengthening the banking and financial system, (3) reforming state owned enterprises, (4) raising productivity via strengthening physical and social infrastructures, (5) improving public administration and (6), accelerating rural development while protecting the environment. The seventh focus is on investing in people and promoting social equity—a central theme addressed herein.<sup>48</sup> In 1998 the government also launched a Hunger Eradication and Poverty Reduction Program (HEPRP) aimed at assisting 1,715 of the country's poorest communities. The Program includes a combination of small scale infrastructure improvement, credit expansion, population resettlement, subsidization of fees that the poor must make for schooling, health and other basic services, agricultural extension services and, most importantly, vocational and technical training initiatives.<sup>49</sup>

The government's pursuit of the seven-point strategy will occur within a global environment from which the government will not withdraw—and *this is a fact!* Indeed in early 2001 the government agreed to a long range

Structural Adjustment Program (SAP) with the World Bank and International Monetary Fund under which it will pursue openness, growth and poverty eradication and alleviation. The Ninth Party Congress that was held in Hanoi in March 2001 similarly called for approaches similar to the content of the SAP. In addition, neither Vietnam nor any of its supporters will be able to reform fundamentally the global system characterized by an international distribution of economic and political power that operates primarily in service of its own national and corporate self-interest. Vietnam must find its own way through the maze of institutions and processes that serve primarily the interests of the powerful. Within this context, while there is no "silver bullet", there is an opportunity for government to secure official assistance donor and non-governmental organization support as it implements the seven-point strategy complemented by the HEPRP and ASEAN can play a facilitating role in the process.

The Association's added role has to do with the results of a May 1999 meeting of members' Labor Ministers when they endorsed two provisions of a program titled "Support to Monitor and Facilitate ASEAN Economic Recovery." The first called for sharing and exchanging experience in the area of social protection and social security. The second recommended enhancing employment generation through improved labor practices and better education and training. The currently underutilized Labor Ministers' program offers Vietnam an opportunity to access knowledge and information that could assist in government efforts to put into place a human development, anti-poverty component to the country's globally focused and export oriented growth strategy.<sup>50</sup>

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## **SPECIAL ARTICLE**

SPEECH DELIVERED BY THE HONOURABLE PRIME MINISTER OF MALAYSIA DATO' DR. MAHATHIR BIN MOHAMAD AT THE OPENING OF WORLD ULAMA CONFERENCE ON 10TH JULY 2003 IN MARRIOTT HOTEL, PUTRAJAYA.

### **“ISLAM IN ERA OF GLOBALISATION”**

Alhamdulillah, All Praise be for Allah, by whose grace and blessings we are gathered here today to discuss matters regarding our religion, Islam and the ummah. I would like to thank the organisers for giving me this opportunity to officiate this conference and to speak on a matter that is so close to our hearts.

But before that, I would like to welcome all participants and guests, especially those from outside Malaysia to this country, this multi-racial and multi religious country where everyone accepts the constitution which provides that Islam is the official religion but the practice of other religions by their followers are guaranteed. We believe in religious harmony as advocated by Islam in Surah Al-Kafirun, ayat five and six. “Not will ye worship that which I worship. To you your way, and to me mine”.

Islam does not have system of hierarchical priests but the Muslim scholars, the learned ones or the Ulamas as they are generally referred to, play an extremely important role in the life of Muslim individuals and the Muslim community. Such is their influence that the stability and progress of Muslim countries depend much on them.

The Ulamas are said to be the successors or the “warasah” of the Prophet. This makes them even more powerful. Their words are often taken as the religious truth and seldom does anyone dispute any pronouncement made by them.

The great ulamas of history were truly learned people with only an interest in seeing that Islam was interpreted correctly. However even these great ulamas differ in their interpretations of Islam. This has resulted in schisms among the Muslims, so deep that many sects cannot be reconciled to this day.

Thus we have the division between the Sunnis and the Shiahs. Their differences have lead to frequent wars between them. But the Sunnis and

the Shiahs are again divided by the different teachings of their imams, who were of course great scholars or “mazhabs” of Islam which have resulted in further subdivisions in Tarikats, with peculiar beliefs including the practice of going into a trance as part of their religious rituals. All these groups and beliefs emerge because different ulamas interpret and teach the religion differently.

Today the term ulama are used very loosely. Just about anyone can claim to be an ulama, a successor of the prophet, entitled to make any interpretation or pronouncement on Islam. They always have some followers who can be quite fanatical. And Muslims become even more fragmented.

Political Islam emerged almost immediately after the death of the Prophet. The Khawarij and the Bani Umayyah formed distinct groups with their own interpretations of Islam. And they warred with each other. Since then, various manifestations of political Islam have gained followings in most Muslims countries.

Political Islam is about using Islam for political ends. With the advent of democracy political Islam has become more trenchant. Very frequently political Islam leads to deliberate misinterpretations of Islam to justify and support their political agendas.

Thus political Islamists go so far as to declare that anyone who does not support their political parties as infidels, kafir, and will go to hell in the afterlife. This frightens a lot of ignorant people into supporting them. Such is the fanatical commitment of the supporters that even obvious misinterpretations by their leaders are accepted by them. And so when the leaders of political Islam, the false ulamas declare that Allah uses filthy and obscene words, that Allah is a thug, a bully and a gangster, they readily believe that Allah, the Merciful and the Compassionate, Allah Al-Mutaqabir is a thug, a bully and a gangster. Yet others interpret Al-Mutaqabir differently, as Allah the Great, the possessor of greatness. The language of the bazaar cannot be applied to Allahu Akhbar.

Every now and again a charismatic ulama would emerge and declare himself as the Imam Mahadi, come to save the ummah. Invariably they have proven to be false and their leadership did not save the ummah. Instead the ummah were often defeated and sink further into weakness and backwardness. Still there are many even in Malaysia who claim that they are the chosen of Allah. And their followers fanatically support them.

While the ulamas are important in order to guide the Muslims along the correct paths as taught by Islam, it is clearly important that we do not



accept everyone who claims to be an ulama as genuine. Many self-declared ulama are pretenders with their own self-interest on their agenda. These pretenders have confused the Muslims so much that frequently their practices can hardly be regarded as Islamic. And many Muslims splinter groups were formed because of these false ulamas.

It is therefore necessary that we examine critically the teachings of the ulamas, whether from the past or the present. Unity and brotherhood is enjoined by Islam, but the different teachings and interpretations prevent unity and many Muslims reject the brotherhood of Muslims unless they belong to their own groups or sets or even to their own political parties. Differences in Islam is healthy and permitted but surely not to the extent of condemning others as infidels, kafir and to war against each other, forming alliances with non-believers to fight fellow Muslims. As we all know the Prophet s.a.w. brought only one Islam. Now there are so many who declare that they are the only true Muslims and practice their own brand of Islam. The one religion of Allah as taught by the prophet has become hundreds of religions.

Consequently Muslims today are so very confused and divided that they are unable to handle the great changes that have taken place in the world during the 1,400 years after the Prophet taught Islam to the Jahiliyah. Some apparently believe that only by recreating the way of life 1,400 years ago can they become true Muslims. For them Islam is only for the time of the Prophet and the people of Arabia and not for all ages and situations.

We know that when the Jahiliyah accepted Islam they became enlightened people, were able to stop the feuds and fighting between their tribes and were able to build a great Islamic civilisation. They acquired knowledge and skills and dominated the known world of their times. They widened their territories and acquired knowledge and skills in every field of human endeavour and became truly Allah's Khalifah on earth. Islam and the Muslims were respected by all humanity.

The great Muslim civilisation that the Jahiliyah and other converts to Islam initiated, resulted in reforms even in the non-Muslim world. It is a fact that mathematics, the sciences, medicine, astronomy and many other fields of learning made tremendous progress due to the work of the Muslim scholars. This is of course completely in keeping with the teachings of Islam, where the first injunction to the Prophet was to "Read", "Iqraq". To read means to study, to acquire knowledge. During the golden years of the Islamic civilisation, the world looked up to the Muslims for knowledge in all fields. The Europeans and the Jews studied Arabic in order to gain

access to the earlier works of the Greeks, the Persians, the Indians and the Chinese, which had been translated into Arabic and studied as well as expanded by Muslim Arab scholars.

The Muslims also became great traders, skillfully, sailing across vast ocean using their knowledge of astronomy. Their trade with far away places also resulted in the spread of Islam in the countries they traded with. They were not professional missionaries but their worldly success and exemplary behavior impressed the local rulers, who then accepted Islam. Indonesia is today the most populous Muslim nation because of the Muslim traders from Yemen and India.

The spread in the teachings of Islam together with the successes of the Muslims in the administrations of their territories as well as their skills and success in trade and industry, gained for the Muslims respect and awe in the world. They were regarded as a world power. No one dared to oppress the Muslims or to invade their territories.

But we all know that now far from being a world power we, the one billion over Muslims, are easily oppressed by the non - Muslims, easily defeated in war and are forced to accept foreign rule and foreign hegemony. The Prophet has been called a terrorist and insulted openly. Muslim holy places have been desecrated. Muslims countries, divided and weak, have to pay homage to the powerful non - Muslim nations. Today Muslims can be arrested and detained or may even be executed for alleged terrorism. Although Muslims suffer much more from terror, only Muslims and Islam are linked to terrorism. The religions of non - Muslims who commit acts of terror are not mentioned. We do not hear of Christian's terrorists, or Hindu terrorists or Buddhists terrorists or Jewish terrorists although there are as many of them as there are Muslim terrorists. We only hear of Muslim terrorists.

We must ask ourselves why the Muslim have to endure this humiliation presently; why we have become so weak and incapable of standing up for our rights. What has changed which has made the great Muslim civilisation fall to such a low level? Is it because Islam is a backward religion; is it what Allah has ordained for us, or takdir or is it that we, the Muslims have wrongly understood our religion and not practised it correctly?

Firstly, is it because of the backwardness of Islam that we cannot now compete with the non - Muslims and defend ourselves? It simply cannot be. We know that when the Jahilliah accepted Islam, their ignorance was replaced by enlightenment and knowledge and they became capable of building a great worldly civilisation, which encompassed almost the whole of the known world then. This great civilisation lasted for almost 1,300 years. If Islam is the cause of the backwardness of Muslims, there would never have been a strong and advanced Muslim civilisation.

If it is not the religion of Islam which has caused the fall of the Muslim, then is it because Allah has ordained that Muslims be backward and oppressed by others? Again it cannot be, for Allah had raised the ignorant Arabs and others who embraced Islam in the early years so that they became perfect Khalifahs on earth and brought glory to Islam, the religion of Allah. He cannot deliberately ordain that Islam be humiliated and the Muslims oppressed for no reason.

The only conclusion that we can make for the sad fate of the Muslims is that they are not practising the true teachings of Islam, that the Islam that they now practise is wrongly interpreted.

We know that in 1492 the last Muslim kingdom in Spain was defeated and the Muslims were expelled from Spain. Why did this happen? If we look at the history of Al - Andalus as the Muslims called Spain, we will see that after the Muslims conquered Spain, they set up the tolerant and enlightened administration. The acquisition of all kinds of knowledge was encouraged. A great library was set up in Khartubah or Cordoba. Scholars from Europe came to Al - Andalus to study the works of the Greek, Persian, Indian scholars, scientists and mathematicians that has been translated by Muslims scholars including the contributions of the Muslims scholars themselves. Muslim engineers built waterways to irrigate the country and agriculture flourished. Products of iron and steel, copper and bronze, and intricately carved timber were manufactured and exported to bring wealth and fame to Al - Andalus. Great mosques and palaces were built exhibiting a unique architecture much admired by the Europeans.

However after some five hundred years the Muslim jurists began to preach against this liberal attitude towards to study of non - religious subjects. The study of the works of the non - Muslims of the past was discouraged. To gain merit in afterlife the only subjects that should be studied were those related to the religion of Islam. Slowly but with gathering momentum the Muslims became ignorant and backward. They paid less and less attention to worldly affairs, allowed their wealth to be dissipated and their military strength neglected. After the death of Al - Mansur in the 12th century A.D. the condition of Al - Andalus deteriorated and it broke up into many small states. The rivalries between these states weakened the Muslims further and one by one they fell before the attacks of the Spaniards. Granada was the last to fall.

The Muslim civilisation would have ended then except that at about this time the Turkish Muslim Othmaniah dynasty emerged as a power in the Eastern Mediterranean region. These Turkish Muslims expanded their control over the Muslim Arab territories in West Asia and North Africa

enabling Islam and Muslim to continue to be a strong power in the world. Much of the Balkan states fell under Turkish rule. But the Turks did not keep up with the development in Europe in terms of industry, especially the development of new weapons. Nor did they acquire contemporary knowledge and skills. Towards the end they were more concerned about dress codes, whether form fitting trousers and peak caps for the Yaniseri mercenary soldiers were Islamic or not. Lacking modern weapons and troubled by deteriorating discipline, the Turkish army rapidly weakened. The British and the French moved in to instigate the Arabs to rebel against Turkish rule. Hoping to become independent of the Turks, the Arabs forgot about Muslim brotherhood and collaborated with the Europeans to defeat the Muslim Turks. But in the end the Arabs did not get their independence because British and the French occupied their territories, divided their lands and made colonies of these artificial states.

Turkey itself would have become a part of Greece had it not been for Kamal Ataturk who even though he himself claimed to be a secularist, nevertheless lead a strong Muslim Turkish force to expel the Greeks from Anatolia.

The history of the decline and fall of Al - Andalus and the Othmaniah Turkish Empire hold many lessons for us, among which is the need for modern knowledge and skills in order to ensure the defence of the Ummah. For as long as the Muslims are able in accordance with Islamic teachings to balance religious knowledge with worldly knowledge, they would be strong enough to defend themselves and their religion. When they disregard this teaching and concentrate only on religious knowledge they would become weak and unable to defend themselves against their enemies.

It seems that we have learnt nothing from our past, from the rise and fall of the Muslim civilisation in Spain and Northern Africa, and the similar fate that befell the Turkish Empire in the East. Every effort to develop the Muslim countries since then has been opposed by Muslims scholars who believe that there is merit only in studying religion. Other pursuits are considered as secular and worldly, including the defence of Islam and the Ummah.

The positive teachings of Islam are interpreted in a negative way. Muslim unity is made conditional upon acceptance of a particular belief or political creed. Those who do not accept these conditions would not be regarded as Muslims and unity with them is rejected. When the Quran says that when we judge we must judge with justice, we reject this injunction in favour of adherence to procedures even if it results injustice. And many more teachings of Islam are twisted and distorted so that the religion fails to deliver the great promises of Islam.

It is not Islam, which has resulted in the decline of the Muslim Ummah. It is the numerous misrepresentations and misinterpretations of Islam, which brought about this misfortune on the Muslims.

Recently when Muslim countries were threatened, Muslims in Malaysia like their brothers all over the world prayed for Allah to save the Iraqi Muslims and their country. But their prayers have not been answered.

Is it that Allah s.w.t. has abandoned the Muslims? Certainly it is not. In the Quran Allah has enjoined that Allah will not change the fate of anyone (Muslims) unless they strive to change their fate themselves (Surah Al - Ra'du - Ayat 11). Allah has also enjoined upon the Muslims that they must prepare their defences in order to strike fear into the hearts of the enemies and to defend the Ummah. (Surah Al - Anfal - Ayat 60)

We know that the Muslims have not really tried to change their fate, their weakness, and backwardness. They have not tried to catch up and surpass their detractors in knowledge and the capacity to produce arms, to have disciplined and well trained forces for their defence. Allah s.w.t. has given them much wealth but they have not used this wealth in the way of Allah. They have made no real effort to unite. They refuse to accept that the world of today is not the same as the world of 1,400 years ago.

Frustrated with Israeli oppression and the occupation of their lands, the Palestinians resorted to suicide bombing. Many consider them as martyrs, shahid. Yet the Malaysian security forces which fought successfully to save this Muslim country from falling into the hands of atheists are not considered worthy of merit. Similarly no merit is accorded to the people who study science, mathematics, engineering etc, which are essential for building the defence capabilities of Muslim countries. Nor are the people who industrialise and enrich a country given any consideration. Yet all these people help to strengthen the Muslim ummah and prevent them from being humiliated the way they are now.

The Muslims will never be able to bring back the honour and the respect for Islam and the Muslims unless they become capable again of defending themselves. To be capable there are many things that they have to do. I have already mentioned them. We can restore the glory of the Islamic civilisation if we orientate Muslims towards the need to have all the skills and knowledge to make the Islamic way of life - Addin -admired, respected and held in awe by others.

The decision is ours to make. If we think we should restore the glory of Islam and the Muslim civilisation we should free ourselves from oppression, be capable of defending ourselves, then we have to strive to do all the necessary so - called worldly things. If we think we should not do anything

worldly then we should accept the humiliation of Islam, the Muslims and their countries.

I have said that the Muslim scholars, the ulamas were and still are the most influential members of the Muslim ummah. They are capable of changing the Muslim mind in any direction. If we think we want to progress and become strong, the ulamas can motivate us. Achieving all the things that our detractors have achieved is not difficult. But we need to be pointed in the right direction. The ulamas can help us do this.

Our salvation will not be achieved by blindly killing innocent people. Rather we should plan and execute a long-term development plan and to excel in all fields. Our rehabilitation will take a long time. We have to be patient. Innallaha maassobirin. But Insyaallah in the end we will succeed for that is the promise of Allah s.w.t. He will not change our fate until we strive to change our fate ourselves. We must prove to the world that Islam is not an obstacle to progress, that Islam is a religion for all times, that Islam is a religion of peace and stability, that Islam can co - exist in a world where Muslims make up only one sixth of humankind.

As I said it is for us to decide. Your conference is important because it is a conference of the most influential people among the Muslim Ummah. If you decide that you want to remove the shame of being looked down upon and trodden under by those who are against us, then you must tell us that you want us to do everything possible to restore our past glory and our great civilisation.

That is the decision that you as ulamas will have to make and you have to make this decision by consensus so that different interpretations will not split us further. That is your collective duty to Islam and the Ummah.

Islam is never wrong. Allah has not ordained that His religion be insulted or denigrated, nor the Ummah oppressed and humiliated. The sad fate of the Muslims today is their own doing , their failure to practise the true teachings of Islam. It is for the Muslims to act to resuscitate their religion and bring back the past glory of the Islamic civilisation. And the ulamas must guide them through the correct interpretations of religious exhortations. But the actual work must be done by Muslims qualified in the various skills. It would be disastrous if the learned in one field assume they are experts in every field.

I wish you a successful conference. May Allah s.w.t. bless and guide you in your deliberation. Shukran. Thank you.

## **THE CHALLENGE OF GLOBALISATION**

*K S Balakrishnan*

Book By, Oscar Ugarteche, *The False Dilemma Of Globalisation*, Zed Books, London 2000.

Ugarteche's recent work on 'The False Dilemma Of Globalisation' can be regarded as one of the finest literature on globalisation worth reading. While the cases used in this study are mainly drawn from the Latin American countries, its value in raising important questions surrounding the debate on globalisation is totally relevant if not crucial. The study highlights some of the crucial themes on contemporary globalisation. Among them include the crisis between the core and the periphery, the dilemma of capitalism, economic liberalism, transnationalisation, conflicting view between the mercantalists and the liberals and lastly the raise of neo-liberalism. The comprehensive thematic approach the author has adopted is surely reflective of academically rigorous manner in which he has handled the subject. It is also interesting to note that he has raised some vital problems affecting the developing countries, which are basically a spin-off from the developed world, particularly the western countries. In fact this is not well covered in many works on globalisation by renowned academics from the western world. The fundamentally revealing argument of this work is its ability to explain how the rise of technology and the decline in productivity in terms of both capital and labour in the developed world affected developing countries' particularly in Latin America. Here the author has demonstrated how these connections sent developing countries into a continuous crisis. And as for the South Americans, this resulted in a larger debt crisis.

Ugarteche argues that the change in techno-economic paradigm has several implications. First of all, developing countries enter at a much slower pace to the demands of the global economy. The reasons for this include the nature of technological change, the de-materialization of production, the substitution factor, use of information and the accelerating pace of innovation. The spread of technologies itself can be questioned. In addition to that, changes in the organizational paradigm for production to improve productivity and achieve greater competitiveness have all

impacted upon the weakness of developing countries in Latin America to adept. For example, the change to techno-economic paradigm left developing countries with great challenges as their survival on raw materials and commodities was critically affected thus leading towards further debt and dependence.

The effect of technology in the west definitely weakens its import; hence affects the strength of poorer economies that are dependent on the developed ones for income. Other explanations of this systemic crisis are also shown in areas such as globalisation and international trade. Here another interesting point to note is the difference between Latin America and Asia in terms of dependency on the west. According to Ugarteche, Asia was very much dependent on foreign aid and foreign trade but the Latin America countries were dependent on banks and transnational companies. In addition to that, he has argued that the role of the state was crucial in advancing Asia's interest. However, this was minimal if not hardly in the case of Latin countries. As for success in world trade, the author believes that Asia's strength in the manufacturing sector played a crucial role in advancing its market share globally. Apparently most Latin American countries concentrated on a few products. On the contrary, Asian countries concentrated on an array of products and are highly diverse. While Latin America possessed a variety of raw materials, the region's lack in developing the export-oriented industrialization based on manufacturing very much influenced its failure to capture a significant share in world trade. In Asia, countries like Japan, South Korea, Taiwan, Hong Kong and some ASEAN countries are far superior in this sector. In the current context, one could make similar assumptions in explaining the rise of China in the global market.

Similarly, the lack of the internal saving, excess of foreign debt and low foreign investment sent Latin America into further crisis. The rise of neo-liberalism with important ideals such as market rule and export-led growth was severely challenged. While export did bring about some level of growth, its continued viability as a precursor for economic growth particularly during the years of economic crisis is clearly challenged by the author. Here, it is indeed crucial to note that the power of pricing, bargaining and abandoning are all with the rich and powerful countries. This is further worsened by the rise of multinational corporations dictating the economies of the poorer countries with the so-called neo-liberal ideals.

Similarly, conditions of financial governance and so forth come from a tradition that believes in the neo-liberal ideals. However the new forms of protectionism and tools that support the developed countries continue



to undermine the interests of the developing countries. With globalisation and the information revolution, the developing world will be left further behind. In addition to that, developed countries including Japan tend to practice some form of economic apartheid by not allowing products of poorer countries to compete freely in its market.

To conclude, Ugarteche's work on globalisation reveals some of the vital features of globalisation that are predatory in nature. His eloquent arguments along with specific cases of Latin American economies have provided a much higher value in linking both theory and the practice of globalisation. He has indeed challenged the very fundamental theoretical explanations of globalisation. The ongoing hypotheses on globalisation are well scrutinised in order to provide some real answer to the myth of the globalisation phenomenon. The work is obviously a pessimistic one. But nonetheless its arguments could credibly challenge some vital theoretical presumptions of many contemporary globalists. What fails to be reflected well by the author is how some of the Asian developing economies seem to be still thriving under the neo-liberal ideals. Their ability to overcome some major economic malaise was not well captured in his comparative discussions of Asia and Latin America.

In the end, the author seems to question the word 'globalization'. Obviously the term is massively misused. Some see globalization with rise of neo-liberal rules of game. Others see it in terms of transnationalisation and borderless world. The French on the other hand according to the author, see globalization in the ways capital expands and its ramifications.

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# MULTIFACETED ASPECTS OF ETHICS IN MODERN DIPLOMACY

*Ravichandran Moorthy*

**Ethics and International Relations (Extent and Limits)** Edited by Jean-Marc Coicaud and Daniel Warner, The United Nations University, 2001

This eleven-chapter book culminates from a research project carried out under the auspices of the Peace and Governance Programme of the United Nations University (Tokyo). It successfully attempts to provide an all encompassing discussion on multifaceted aspects of *ethics* and its relationship to international relations, diplomacy and politics. The areas covered include the extent and limits of contemporary international ethics, international law, ethics in modern diplomacy, relations with violence and ethics, justice and international order, human rights, environmental ethics, feminism, issues of refugees and globalisation.

In chapter 1, Coicaud and Warner attempt to clarify 'ethics', in general terms the major elements that shape ethics and contemporary international affairs. They postulate ethics as an innate nature of being a *human*, where thoughts and actions are carried out in an ethical manner consistent to what he or she considers to be dignified, in relation to himself, others and the world. They also argue that ethics has social quality, which essentially refers to the feeling that our life extends itself to the lives of other individuals. This realization makes us recognize that social virtues such as justice, responsibility or solidarity, are virtues that we owe to others and we would ensure that others receive their fair share. To them, ethics should be understood in terms of reciprocity and responsibility. Reciprocal duties refer to the respect of the rights of others, and subsequently a sense of responsibility and solidarity is derived from this reciprocity and the exchange of rights and duties. The authors also show that ethics are about trying to be decent, which generates its meaning from the preference of certain values. Three key values are introduced: first 'justice' (a balance between what is defined as good and bad, and attempts to constantly fine-tune what is deemed good and right). The second value defines good and bad from the perspective of ethical mapping of the world *vis a vis* what seems to be commendable or condemnable. Whilst the third refers to

positive values that are favoured and cherished, such as justice, love, friendship, tolerance, etc.. To them, experiencing these values have inspirational and fulfilling effects on individuals that may in turn lead to the quest for more ethical consideration.

In chapter 2, Friedrich Kratochwil discusses the links between international law and international ethics, from the realms of jurisprudential diagnostics. The author argues that the link between the realms of morality and law often remains unclear and uncontested. The ambiguity of this situation presents several options; which are, either to accept the 'autonomous logic' of each realm or to analyze how law and morality interact. The author acknowledges the different concepts of ethics and morals from the perspective of professional and universal standards. However, his central focus is on universal standards, especially pertaining to abstracts and binding standards of ethics. The author claims that there are stronger reasons to reject international law as an approach to international ethics, because main political theories seem to be uncertain of the possibility of assuring 'good life' and empirical standards on what is deemed ethical, and neither does he believe that a universal standard across sovereign authorities is possible. This is further compounded with the perception that international law is an inadequate device to determine the ethical and moral obligations, since many of its legal entitlements are tied up with its membership in a community. The author also adequately shows that the examination of several approaches to ethics and international law has not been successful in terms of their own criteria, which subsequently suggest the failure of ethics to be viewed as an analytical discipline. Finally, he argues that in reality ethical choices hardly arise due to multifaceted problems generated from increased interdependencies and also crises between states. Subsequently, he proposes that, instead of overemphasizing the clarification on the principles, a more problem solving approach can be adopted to address the subject matter.

In chapter 3, Roberto Toscano describes the practice of ethics in modern day diplomacy. He argues that the Kosovo crisis (1999) has brought international concern and debate on moral considerations to justify military action, or rather, '*what is an ethical war?*' The article explores this concept in detail, discussing corresponding aspects such as relationships of ethics and diplomacy, the menace of war, the ideology of national interest and sovereignty, globalization, international law and responsibility. The author distinguishes *morality* as obligations that borders with law or regulations, and it answers the question of '*What must I do?*', while *ethics* is distinguished as wisdom that borders with love, and answers the question '*How should I live?*'; i.e., '*Morality commands and ethics recommends.*' In essence, the author argues that moral exemption in the conduct of diplomacy is no

longer defensible, as political actions have to adhere to ethical rules and the demands of responsibility. However, the interconnectedness of the World, due to globalization and advent of information and communication technology, has to a great extent increased the interdependency of nations. Hence, an action or non-action in one part of the world may have instantaneous repercussions in another part of the World, a distance away. Employing Edward Lorenz's term of '*chaos theory*', the author argues that, in a state of chaos, it may be difficult to adhere to the principles of responsibility, as one would not be able to predict action and repercussion, and as such *responsibility* may be sidelined. As a viable alternative, the author proposes the *precautionary principle* as doctrine for the conduct of diplomacy. The principle, developed by the German and French in reference to legal matters, is particularly relevant in the field of diplomacy. This principle does not only consider '*responsibility*' on preventive measures that is required to deal with predictable risk, but it also addresses cases of unpredictability or uncertainty where precautionary measures were not taken. The author also claims that moral principles interpreted from a functional paradigm will enable nations to view ethical concerns beyond the narrow vision of national interest. Hence, it balances the pursuit of legitimate national interest with ethical criteria.

In chapter 4, Pierre Hassner illustrates the relationship between violence and ethics from beyond the state paradigm perspective. Essentially, the article explores the many difficulties in justifying violence within the realms of ethics. The lack of credible universal laws and norms, the plurality of communities and national interests without commonality in authority and institutions make it difficult to even suggest a similar notion of '*morality*'. The notion of morality is even more complex when dealing with inter-state affairs, where ethical considerations are seen as options between conscience, individuals or universal, and national interests, which are basically consideration between the *idealist* and *realist* paradigms. The author argues in the present day context, the *fashion* for ethics refers to pursuit of individuals and citizens to ascertain ethical standards, even some organizations have set up ethical-committees to study this matter. However, the problem lies on the question of criteria that should govern the choices and decisions of its members. The search becomes even more difficult when it concerns *violence*. The author cites that societies do use threats and even force against their enemies and even honour the individuals who have sacrificed their lives fighting for it. Hence, in doing so, societies are often validating their actions on the basis of moral, legal or even religious justifications. However, *violence* is seen as distinct from *force*. It is argued that *force* lacks justification, as it stems from individual and collective passions without any legitimate authority or purpose. The perennial contention here is between the aspects of moral and the legitimacy of the

use of force. The modern distinction allows institutional authority to prevail over all other justifications (*be it righteous, religious or others*) for the use of violence. In discussing the basic dialectic relationships in ethics, the author argues that the problems of end and means are permanent but these are affected by changes in ideology and technology. In contrast, the dialectics between actors and structures show fundamental changes. These changes are a direct result of the declining moral authority of state and the increasing role of non-state actors such as transnational forces, alternative communities and the rise of the feeling of *planetary responsibility*. Subsequently, the author shows that within individuals, society and internationally, there are at least two moral codes and attitudes concerning violence; which he terms as embourgeoisement of the barbarian and barbarization of the bourgeois. Another important aspect highlighted is the notion of moral person. The author argues that individuals are endowed with moral authority and obligations, and the state with a moral and a quasi-religious authority demands a reciprocal obligatory relation of rights and duties between the subjects and state, and towards other sovereign states.

In chapter 5, David Campbell discusses the ethical question of war in Bosnia and Kosovo from the perspective of justice and international order. The discussion centers on the perspective of continental philosophy, especially post-structuralism, and its limitations to render justice and ethics in the conflict areas. At the beginning, the author clarifies that the philosophical reworking discussed does not serve as a guide for a political solution, but rather as a depiction of assumptions, effects and the constraints of the debate. The author shows that there are competing conceptions of justice; drawing from the views of Brown (rules governed by impartiality), Bull (invoking Aristotle's formulation of a particular kind of right to conduct that addresses fairness), Walzer (exceptions or exceptional circumstances of just and unjust war) and Derrida (justice is infinite and the experience of the impossible). In discussing the continental approach of ethics, Kennan's (realist) views show that moral concerns are largely inappropriate to international affairs because, without moral concerns the central issue of sovereignty can be affirmed without much problem. The author argues otherwise; he shows that the 'affirmation of sovereignty is itself insinuated with moral considerations', for it is a position in which subjects accept the priority given to state security. On the search for an ethical theory, the author shows the alternative approach is '*against theory*', which resists the idea of a theory of ethics. Instead, it promotes ethical relations, in which mutual responsibilities toward one another form the basis for ethical relations. The author also provides brief overviews on the crises in Bosnia and Kosovo, in relation to the question of justice. In the case of Bosnia, despite clear objectives, the international community, especially Europe

and the US were slow in their actions. NATO's military deployment was only to provide some kind of cushion to the limited humanitarian involvement; it did not 'address the politics of the problem.' The author argues, despite widespread crime of ethnic cleansing of the Bosnian Muslim, there was a 'collective spinelessness' in the policies directed at Bosnia. It appears the US is more concerned about itself and its allies rather than the Bosnian. While in the Kosovo case, the issue of justice is raised not only in regard to the violence, ethnic cleansing and genocide of the Serbs towards the Kosovars; equally accentuated are the criticisms towards the Operation Allied Forces (NATO), especially on their tactical actions. The author also shows that in both situations the post-structuralist perspective on justice does not provide definite answers to the multitude of problems.

In chapter 6, Jack Donnelly discusses the ethical contours of international human rights principles enshrined in the Universal Declaration of Human Rights and Human Rights Covenant. His argument centers on the non-acceptance of the political realist paradigm, especially the distinctions made by the realist between morality and national interest. He believes politics has inescapable ethical dimension. However, despite the acceptance of human rights standards in international politics, it remains *second best* in the foreign policy of states and in most regional and international organizations. The author outlines four ethical perspectives implied in the leading international legal instruments as ethical foundations. The first is the endorsement of all states of the Universal Declaration of Human Rights and other declarations, covenants and norms. The second is the framework of the moral and political theories on human rights. The moral perspectives from deontological (duty based) theories emphasize *doing the right thing*, while for the utilitarian, *rights* are only second order rules, and in political theories *human rights* becomes the central element. The third perspective concerns itself with the universality of human rights and how it organizes itself in contemporary social and political relations; while the fourth addresses the aspects of political legitimacy. The author describes the four contemporary issues on human rights. First, the author argues that the relationship between state and human rights issues is *problematic*, since the state remains the only agent capable of delivering the demands of human rights norms. The second refers to the international responsibility for the gross violations of rights. The author shows the efforts to establish international responsibility on gross violations issues have somewhat challenged the state-centric stance of the Universal Declaration and the covenants. The third demonstrates the problems of cultural relativism, in terms of different perceptions of human rights, resulting from the diversity of regions, cultures, political and religious conceptions of human rights. The author also points out, however different these conceptions be, 'the idea of human *rights* appeals to values and

social practices that transcend cultural and political differences.' The fourth issue looks at the linkages between democracy, markets and human rights. Democracy has been largely accepted internationally as the form of political rule, and market as the basis of economic organization. The linkage between these two elements with human rights has been widely noted. However, the author argues, despite this acceptance, there are fundamental divergences between the political logic of human rights, democracy and market. The author concludes that *human rights* can act as a counter check device to regulate the limits of both democracy and market forces. This balance, together with the right to lead a life of dignity, is fundamentally important. The author feels that the dissemination of human rights ideas is timely, as current political processes show evidence towards embracing these principles.

In chapter 7, Oran R Young delves into issues of environmental ethics in relation to international society. He examines the principles enshrined in the three key documents; the Stockholm Declaration on Human Environment (1972), the World Charter of Nature (1982) and the Rio Declaration on Environment and Development (1992), and attempts to provide answers to several pertinent questions; the nature and status of environmental principles, behaviours of actors in international society, coherency of ethics, civil society and changes in the system. The author feels that the international environmental ethics are extremely inadequate; the first reason being the absence of a single authoritative text to clearly interpret ethical conducts, and the second being the nonexistence of a universal declaration or environment ethics charter which is acknowledged as authoritative by the international society. In 1970's, 80's and 90's many declarations and resolutions manifested from the various international environmental conferences; the declarations in essence call for the states to exercise rights and responsibility to better manage their environment *vis a vis* environmental protection and sustainable development. The author argues, despite the nonexistence of a single authoritative text, there are some core principles that are more commonly recognized such as the polluter pays price, corollary of reverse onus, environmental equity, the principle of common but differentiated responsibility and others. These principles, perhaps to a varying extent, provide the working framework needed to address environmental ethics issues. The author argues that these principles should be 'construed as norms of proper conduct rather than as primitive or underdeveloped rules.' Their effectiveness are related to the functions they undertake in guiding and shaping events of international society. The author also shows that ethical systems are dynamic and do undergo changes, which result from new public issues that demand new codes or the adaptation to the existing ones. The changes may also result from the 'shift in interest and influence of major actors in specific social



settings.' The author is of the view that the development of international environmental ethics is still at an early stage, and the force leading to an ethical system that subscribes to sustainable development is more likely to prevail over the ethics of bio-centric systems of environmental protection.

In chapter 8, Kimberly Hutchings attempts to assess and analyze the feminist thinking in relation to the question of ethics in international relations. The discussion is premised on feminist responses to the issues on just-war theory and international human rights. The author shows that the last quarter of the twentieth century has witnessed the growth of feminism and women's political movement in matters of state and interstate politics, especially with issues concerning women's positions. The author claims, despite economic development, the position of women has shown little progress and some even argue about the 'actual regression of women's positions' and that most communities today rely on the disempowering of women in relation to men. In discussing the principle of just war, the author draws from the views of Gilligan, Kohlberg and especially Ruddick. Following Ruddick and feminist moral orientation, the author proposes a concept of 'ethics of care' in the context of international politics. According to Ruddick, 'ethics of care' manifests itself as 'maternal thinking', and it is rooted in the discipline of attentive love and care between mother and child. She claims that 'maternal thinking' culminates into maternal practices, which bring about changes in radically different cultures; as such maternal thinking can be employed 'as an accessible basis for addressing all kinds of political violence. While maternal thinking specifies exemplary conduct and values, the *human rights* based ethics presumes that ethical values are an intrinsic nature of human being. Mackinnon, who proposes this 'human right based ethics' attempts to shift the orientation from 'ethics of care' practice to the 'politics of sexually differentiated rights and a more pessimistic and conflictual vision of future.' The author shows that Mackinnon focuses on the political and legal institutionalization of the concept of human rights within states and internationally. She argues that international human rights do not adequately serve the interest of not only women but people in general. In addition, she claims that the contemporary human rights thinking has somewhat excluded women from the category of humanity. The author also shows that both Ruddick and Mackinnon provide different feminist responses to the issues of ethics and politics. Ruddick envisages positive changes through transforming the fundamental ethics manifested in state-centric *just war* thinking. Whereas, Mackinnon's view is somewhat limited; she envisages fundamental conflict of interest involved in the struggle of rights of subordinated groups.

In chapter 9, Mark Gibley provides lucid discussion on the ethical concerns and practices in dealing with refugee issues. The author argues,

even though states assume international and regional obligations under international laws to provide protection for refugees, in reality, more often than not this practice is not easily discernible. In this context, the granting of refugees status, while it is indeed an ethical action by itself, should be seen as acts demanded by the principle of justice rather than as acts of charity. The author divides this chapter into six sections, which deal with pertinent aspects of refugees' ethical issues. The first section examines the difference of the 'moral universe' in relation to both domestic and international realms, the changes to the perception of morality due to geographical location and what now constitute as moral issues. The author argues that the biggest problem of ethical theory is to firstly determine what constitutes as ethical issues, rather than what constitutes an ethical or not an ethical behaviour. According to the author, the theory also has not sufficiently outlined the defining parameters and how ethical issues can be framed and packaged. The author argues that not all ethical issues are addressed; instead one may be inclined to be selective on issues that are more manageable, while ignoring the larger aspects of the moral issues. The second section delves into the question of determining who is a refugee. While the essence of granting refugee status is to protect individuals from danger and incarceration, there is common practice amongst refugee lawyers to read the refugee convention so as to exclude people fleeing from ravages of war as refugees. The author disagrees, by providing empirical evidence of conflicts in Central America in 1980's. He shows that such an argument is 'manifestly unfounded'. The author also points out, unlike the UN convention, the Organization of African Unity and the Cartagena Declaration have broadened the definition of refugees to include war and violence refugees. Amongst other requirements for refugee status, the author highlights the need for asylum seekers to show that they are being singled-out for prosecution. Unless the seekers can prove that they are subjected to danger in the country of origin, refugee status may not be granted. Hence, such definition and practice is contrary to the objective of refugee protection. The third section explains the non-entry policies of many governments that follow the legal principle of *non-refoulement* which refrains from returning the refugees to the country of origin, especially in situations where they could be harmed. Instead, governments try to discourage people from coming into the refugee systems. This is done through practices such as redefining the *non-refoulement* principle as in the judgment handed down by the US Supreme Court in the case of *Sale v Haitian Center Council, Inc.*, or by imposing visa requirements for people from certain countries, and carrier sanctions on specific airlines that transport passengers without valid passports and visas, or through 'safe' third country provision as adopted by most European countries. The fourth section highlights some abuses of refugee protection in the US and Western Europe. The author argues that in both US and Europe, the success rate of asylum

seekers has been drastically declining due to restrictions. The fifth section very lucidly describes the transnational state responsibility in addressing refugees' problems. Following Walzer's views, the author argues that certain actions by us create refugees, and as such we have a special duty towards the refugee problem. The author claims that the West sees refugee administration as more a charitable act rather than something based on duty or responsibility. They see themselves at the receiving end of the problems caused by the actions of others. However, this perception can be challenged, as in reality all major refugee situations in the world have the involvement of Western countries, and neither has any of these countries claimed responsibility for their actions. In the last section, two principles for ethical refugee policy are outlined. The first principle proposes that one should understand that refugee policy is meant to save lives and to protect vulnerable persons. The second principle suggests that the West should acknowledge that they are also a part of the refugee problem and not only part of the solution.

In chapter 10, Ethan B. Kapstein provides a comprehensive discussion on the ethical problems that result from globalization. His argument centers on the practices of free trade and distributive justice that affect, not only nation states and institutions but also the individuals. The central discussion addresses the effects of globalization, and how wealth can be distributed equally within and between countries. He argues that from the moral and ethical viewpoint, economic opportunities should not be only gauged through national output indicators, but rather on the extent that individual are affected in terms of their life chances. Hence, the philosophical consideration of globalization lies between utilitarian ('the greatest good for the greatest number') and liberal (emphasis on individual well-being) perspectives. The author shows that political economists have not given adequate treatment to moral issues; instead they have been focusing on domestic politics of protectionism and international politics of hegemonic power. In discussing the normative theory of free trade, the author argues that the utilitarian framework which generally avoids distributive issues is being challenged. This framework has not done enough to address matters such as trade-displaced workers, issues of low wages and compensation packages. While in distributive justice, the author shows that free trade has distributive effects on domestic factors of production, which constitute the moral dilemma. Distributive justice refers to how societies allocate their resources, either based on egalitarian principles of resource distributions, market based systems or through Marx's proportionate scheme based on individual needs. In making the comparison, the author shows that the utilitarian perspective based on the cost benefit analysis, does not adequately address the wide-scale violations of individual rights in achieving the greatest good. In conclusion, the author argues that

despite economic growth, the labour situation still shows severe problems of inequality. Following Rawlsian approach, the author suggests that distributive justice which promotes the 'fate of the least advantaged' can be analyzed within the framework of economic openness. Hence, globalization should provide *life chances* for each and every individual.

In chapter 11, the conclusion, Nicholas Rengger shows that in positivist paradigm the elements of normative and ethical issues are intertwined with aspects of world politics; as such it has generated substantial academic interest and writings, in both general and specific areas. The various chapters in this book, which is a culmination of this interest, have rather adequately covered a range of international ethics issues in breadth and depth. In essence, the author proposes three approaches on contemporary literature; the traditional, analytical and critical approaches. The traditional approach is certainly the most widely applied by practitioners of international affairs who deals with ethical and normative issues. The analytical approach, although in many aspects overlaps with the traditional approach, proposes a different emphasis. It is tied-down to the basic structure of states system, which is quite liberal and universalistic in orientation. On the other hand, the critical approach is more recent, and has a distinct way of looking at international ethics. While accepting the differences of the earlier two approaches, especially in terms of different intellectual background and dominant assumptions, the critical approach has initiated debate between the approaches, which is seen as a positive development. The author also exhorts that issues of international ethics should be seen through a cosmopolitical viewpoint, meaning to say the issues of value, obligation and urgency that affects both private and public matters, are not prejudged. Hence, the tasks of international ethics should be seen as going beyond the limits of only providing guidance for action. The author acknowledges the essentiality of international ethics to understand international world politics.

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