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Global dilemmas and the need for cooperation at supranational, national, and local levels

Policymakers in the 21<sup>st</sup> century find themselves in a complex world system in which two main forces shape the world in which development policy will be defined and implemented:

globalization—the continuing integration of the countries of the world—and localization—the desire for self-determination and the devolution of power.

Many aspects of globalization have captured worldwide attention in the 1990s, including capital flows, migration, and environmental issues. The effects of globalization can be seen everywhere: in economic, social and political life, around the world. Yet the more all-pervasive are these effects, the more elusive is the animal itself.<sup>1</sup>

The most human focus on international political economy is the North-South structure—the asymmetrical or unequal relationship between the developed and developing countries in the world economy.<sup>2</sup> In regard to development there are institutional as well as national constraints. Moreover, the trade-off between how to overcome these constraints—set by politics, economics, society, and institutions such as the World Bank or the IMF—and the hope for an escape from this zero-sum game deserves greatest attention. The dilemma is based on the lack of institutions and the missing actions of governments to initiate reforms and enact effective policies. Furthermore, the digital divide in the fields of technological implications, education, health care or managerial know-how adds up to the challenging political and economic constellation. Questions like “how to develop ‘disconnected’ countries” or “how to make them stay on track concerning technology and

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<sup>1</sup> Gowan (1999), p. 3.

<sup>2</sup> Isaak (2000), p. 122.

infrastructure” are but just the most obvious ones toward a more integrated, and thus global world economy. The 3<sup>rd</sup> World’s debt burden is a third pork that is growing at a fast pace and therefore hard to control. In order to transform countries from the South and allow them to converge toward the Northern countries and other 1<sup>st</sup> World nations discipline maybe another decisive factor in this very process. Without governments that act in a transparent, credible, and accountable manner this change is not going to happen.

In the following, the focus will be shifted towards trade issues and the arising challenges of cooperation on a global scale, and thus looks at the North-South relations in a broader perspective. For more than a century, the driving force behind globalization has been the expansion of trade in goods and services. And throughout the early decades of the 21st century, trade will continue to drive global integration, especially among developing countries.<sup>3</sup>

Trade is important and challenging to developing countries for many reasons. It is frequently the primary means of realizing the benefits of globalization. Moreover, the reallocation of manufacturing activities from industrial to developing countries offers ample opportunity to expand trade not only in goods, but also in services, which are becoming increasingly tradable. In addition, trade is intertwined with another element of globalization: the spread of production networks. And finally, the growth of trade is firmly buttressed by international institutions of long standing. The World Trade Organization (WTO), built on the legacy of the General Agreement on Tariffs and Trade (GATT), is the latest step in creating a commercial environment more conducive to the multilateral exchange of goods and services and has to deal with different challenges: Reinforcing the credibility of trade liberalization, promoting transparent trade policy regimes, and building technical capacity in trade matters in least-developed countries.

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<sup>3</sup> World Development Report (2000).

To modernize, industrialize, and urbanize, developing countries will need huge injections of capital. Most of it will come from domestic savings, but well-run developing countries offering solid returns can expect to supplement their savings with resources from all over the globe. Developing countries are also the fastest-growing markets for the products of multinational corporations. As these markets expand they will attract ever-greater amounts of foreign direct investment, which provides jobs and managerial and technical expertise, as well as capital. But the governments of developing countries must take measures to attract such investment, since it will not automatically find its way to them.

Moreover, in the global economy, businesses are increasingly forced to shift from being multinational to being transnational. Multinational corporations which emerge almost overnight act as major players in this global economy and have a great impact and a lot of influence on many issues, especially in developed and to some extent in developing countries. From this point, it can be concluded that there can be no dominant economic power. Furthermore, there is certainly need for moral, legal, and economic rules that are accepted and enforced throughout the global economy. A central challenge, therefore, is the development of international law and supranational organizations which in turn can make and enforce rules for the global economy.<sup>4</sup>

Globalization has circumscribed the ability of many central governments to raise revenues by taxing corporations, which now have the option of moving part or all of their economic activity to low-tax venues. As central governments find themselves looking for other sources of revenue, regional and urban communities are coming together to assert their own interests, putting yet more pressure on the traditional forms of governance. The result has been new ways of thinking about how to manage the world's economies and a corresponding need to create new institutions

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<sup>4</sup> Drucker (1997).

to do so. International political economy is rich with challenging questions. In order to solve the contemporary dilemmas concerning international trade or issues in regard to intellectual property rights governments and other institutions will be needed at three levels: *supranational, national, and local*.

At the supranational level some institutions for shaping and channeling the forces of globalization are already in place. The World Trade Organization (WTO), the Basel Accord<sup>5</sup>, and the Montreal Protocol<sup>6</sup>, which affect, respectively, trade, banking systems, and the release of ozone-depleting chemical agents worldwide, are representative of the kinds of institutions the world will need in the 21<sup>st</sup> century.

At the national level many countries are learning which policies work well and which should be avoided for the purposes of macroeconomic stability. A stable macroeconomic environment, a liberalized domestic business services sector, and a legal framework that induces transparency and protects investors' rights are advantageous. Conversely, deficiencies in financial policies and business practices are a recipe for disaster—a bitter lesson learned from the banking and currency crises of the late 20th century.

At the subnational level localization has led many central governments to grant political, fiscal, and administrative powers to local governments. Macroeconomic instability arising in part from tensions between the central government and subnational entities show how important harmonious relations between central and local authorities are in creating and sustaining market confidence.

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<sup>5</sup> The 1988 Basle Accord primarily addressed banking in the sense of deposit taking and lending, so its focus was credit risk. With banks increasingly taking market risk in the early 1990s, the Basle Committee decided to update the accord to include bank capital requirements for market risk. Currently the Basle Committee is in continued progress toward the New Accord release also known as Basel II. (Bank for International Settlements)

<sup>6</sup> The Montreal Protocol on Substances that Deplete the Ozone Layer was adopted in 1987 as an international treaty to eliminate the production and consumption of ozone-depleting chemicals, with developing countries benefiting from a ten-year grace period. (World Bank)

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