

Special Issue: Managing Development and Transition in a Globalizing World: Globalization and the State

Introduction

NAKAGAWA Junji*

1. About the MDT project

This issue of the Journal of Social Science features the result of the ISS Project Research on “Managing Development and Transition in a Globalizing World: A Comparative Analysis of Economic Policy Reform and Corporate Behavior in Developing Countries and Former Socialist Countries” (hereinafter referred to as “MDT”). The MDT started in November 1999, when the ISS invited researchers of Brazil, Argentina, Korea and the United States to discuss the research framework, major topics, target countries, as well as possible members of the Project. Based on the results of this preliminary brainstorming workshop, we launched the MDT in 2000, with financial support from the Japan Foundation Center for Global Partnership.

In total, we held four joint workshops¹⁾, two public symposia²⁾, and one Project Seminar³⁾. Part of these research activities has already been published⁴⁾. Since the 4th and final Joint Workshop, we have been engaged in the editorial and publication work of the research results of the MDT project. This issue is the first achievement. The rest of the re-

* Professor of International Economic Law, Institute of Social Science, University of Tokyo.

1) 1st Joint Workshop—11 to 12 September 2000 (ISS, University of Tokyo).

2nd Joint Workshop—19 to 20 February 2001 (Rio de Janeiro, Brazil).

3rd Joint Workshop—24 to 25 March 2002 (ISS).

4th Joint Workshop—22 and 24 July 2002 (ISS).

2) 1st Public Symposium—12 September 2000 (Sanjo Conference Hall, University of Tokyo) on “Managing Development and Transition in a Globalizing World.”

2nd Public Symposium—23 July 2002 (Sanjo Conference Hall, University of Tokyo) on “Financial Liberalization and Financial Crises: Asia, Latin America and the IMF.”

search results will be published as separate volumes of the ISS Research Series and a commercial publication in due course.

II. Purpose and research topics of the MDT project

The main objective of the MDT was to conduct a comparative analysis of economic policy reform and corporate behavior in developing countries and former socialist countries in the 1990s. This was based on our perception that many developing countries and former socialist countries are facing serious dilemmas of development and transition strategy. On the one hand, globalization of world economy has increased the vulnerability of domestic economies to external influences, which has made traditional economic policy instruments (such as financial policy, exchange rate policy, trade policy and industrial policy) less efficient and less effective. On the other hand, market-oriented development and transition strategy has proved not always effective, or even detrimental in some cases. Recent financial and economic crises in East Asia, Latin America and Russia are only part of the deep-rooted serious dilemmas these countries are facing now.

IMF, World Bank and other international financial organizations are supporting these countries to get rid of the financial and economic crises through conditionality, structural adjustment and other policy advice mechanisms. In addition, the World Trade Organization (WTO) offers a forum to negotiate multilateral rules of trade in goods and services, investment, intellectual property and other matters relating to the management of globalizing world economy.

Have these multilateral efforts been successful in solving the dilemmas of development

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- 3) Project Seminar on "The Crisis in Argentina"—26 March 2002 (ISS). Speaker-Mitsuhiro Furusawa (Japan, Ministry of Finance), Commontaters-Joaô Carlos Ferraz (Universidade Federal do Rio de Janeiro), Isidro Morales (Universidad de las Americas), Alicia Girón (Universidad Nacional Autónoma de México), Barbara Stallings (ECLAC).
 - 4) (1) The Journal of Social Science, Vol. 52, No. 5 (2001), pp. 1-124. Featured Theme: ISS Symposium on "Managing Development and Transition in a Globalizing World." (This contains the papers submitted to the 1st Public Symposium held on 12 September 2000 (see supra n. 2) as well as the record of discussion at the Symposium.)
(2) Akira Suehiro & Akio Komorida eds., Comparative Studies of Liberalization, Economic Crisis and Social Restructuring in Asia, Latin America and Russia/Eastern Europe—Part I, New Perspective on Critical Issues, ISS Research Series No. 1, Institute of Social Science, University of Tokyo, 2001, 198 pp. (This contains survey articles and bibliographies on the theme of the MDT.)
(3) Akira Suehiro & Junji Nakagawa eds., Comparative Studies of Liberalization, Economic Crisis and Social Restructuring in Asia, Latin America and Russia/Eastern Europe—Part II, Chronology, ISS Research Series No. 2, Institute of Social Science, University of Tokyo, 2001, 198 pp. (This contains chronologies of economic policy reform in the research target countries in the 1990s and statistical data.)

and transition strategy? Have these countries been successful in restructuring their own economies to meet the changing international environment? If not, what are the major obstacles? Are they exogenous or endogenous? Are there any alternative strategies?

The MDT aims at answering these questions through, first, comparative analysis of economic policy reform in East and Southeast Asia, Latin America and in a few former socialist countries in Central and Eastern Europe. These countries experienced drastic changes in their economic policy since the 1980s. Although these changes have lots of things in common, they differ considerably in the timing, pace and contents. Where did these differences come from? Why did the reforms bring about successes in some countries and failures in many others? In order to answer these questions, the MDT aims at conducting in-depth comparative analysis of economic policy reform in these countries.

On the other hand, the private sector in these countries has been adapting itself to the changing business environment. Not only in manufacturing sector, but also in services sector, have the multilateral corporations and local corporations been striving to reorganize their purchase/production/sales networks beyond borders. National governments and private sector interact with each other in the sense that national governments are trying to regulate private sector effectively, while private sector is trying to persuade national governments to adopt new policies that fit the new global business environment. It is, therefore, indispensable that analysis of economic policy reform go in hand with analysis of the behavior of private sector in order to fully understand the backgrounds, processes and effects of the economic policy reform in the target countries. This constitutes the second pillar of the MDT.

The MDT consists of four research clusters. The 1st cluster, titled "globalization", dealt with the impact of globalization on the economic governance at international, regional and national levels. The 2nd cluster, titled "liberalization", dealt with financial sector reform and its impact on the performance of financial sector in the target countries. The 3rd cluster, titled "corporate behavior", dealt with reactions of private sector to the globalizing business environment, focusing on corporate governance, M&A, and investment decision-making. The 4th cluster, titled "social policy", dealt with the impact of globalization on the social policy of the target countries.

III. Content of this featured issue

This featured issue contains final papers from the 1st and the 4th clusters of the MDT. Part I of the issue consists of six papers pertaining to the 1st cluster, which originally consisted of nine. The other two papers of the 1st cluster, which deal with the IMF and the WTO, respectively, will be published in the coming volume of the ISS Research Series

featuring international financial architecture and financial sector reform, together with the papers pertaining to the 2nd cluster. Another volume of the ISS Research Series will contain papers of the 3rd cluster.

DeMartino's paper deals with the impact of globalization on state sovereignty, policy autonomy and state capacity. He argues that globalization threatens policy autonomy and also undermines state capacity. However, he argues, sovereignty *per se* is not in peril by the conclusion of multilateral and regional agreements, because they are temporary and reversible sacrifice of sovereignty, not the usurpation of it. He concludes that under the current globalizing world environment, states should cooperate themselves to restore policy autonomy and state capacity in multilateral and regional frameworks.

Isidro Moreles' and Tadeusz Kowalik's papers deal with an important aspect of economic policy reform in the target countries to meet the new globalized environment: regional economic integration. **Morales** takes up the NAFTA as an interface between multilateral and North-South policies. He agrees with DeMartino in that globalization has caused the fragmentation of state's power and authority. His core argument is that regionalization is the most adequate device for dealing with global governance, because it reduces the political cost for building and maintaining a minimum threshold of governance on specific global issues such as trade, investment and financial openness, and provides an interface between unilateral and multilateral actions. NAFTA is a good example.

Kowalik's view is much more pessimistic. Focusing on the integration of Central and Eastern Europe into the EU, he argues that the simple dynamics of convergence is only one out of many other evolutions to be expected, and that there are many models of growth, and that integration is harmful to future development of Central and Eastern Europe.

Shin Yasui's paper presents an interesting analysis of the process of technocrat-led economic policy reform in Chile and Indonesia. These two countries have a lot in common: Economists trained in the United States occupied important posts in national bureaucracy, and kept their position until the next generation took them over. However, the course of economic liberalization taken in each country differed considerably. In Chile, Pinochet maintained "relative autonomy" in economic policy making, which provided the "relative insulation" of economic technocrats from domestic interest groups. On the other hand, as Soeharto's New Order government had to distribute political patronage among his constituency, it also advocated interventionist tendency of the economic nationalists. Thus, in times of prosperity, Soeharto used to let the latter take the initiative, whereas facing economic difficulties he turned to the former, letting them lead the economic management. He concludes that ideas rarely float freely, and that overemphasis of conspiracy in the dissemination process could result in overlooking the particularities of each case.

Michael Herrmann conducts a comparative empirical analysis of trade patterns and development between the target countries of the MDT (MDTCs) and least developed countries (LDCs). The MDTCs and LDCs display a much different performance with respect to GDP

growth and poverty reduction. He argues that this cannot be explained by the difference of their levels of economic integration in to the world economy. Rather, he argues that it is the form of trade integration that influences the development prospects of these countries. The MDTCs, which have managed to diversify into manufacturing exports, have benefited from increasing market shares in relatively dynamic markets. By contrast, the LDCs, which strongly specialize in non-oil primary commodities, have witnessed declining international prices for the exporting goods and deteriorating export revenues and import capacities. In conclusion, he maintains that it is important that developing countries had better mainstream trade in their development strategies, and that their development partners more actively support strategies to develop productive capacities and export competitiveness.

Hilda Eitzen deals with the FDI policy and corporate strategy in Kazakhstan. She describes how Kazakhstan managed to diversify FDI inflows and build a direct pipeline to China and the Pacific by government-led transition strategy despite the criticism from the World Bank and the IMF. At the same time, Kazakh government and business leaders turned within to establish local corporate groups rather than depending solely on FDIs. She shows us an interesting story about how a country in transition is trying to manage its fate in a globalizing environment.

Part II of this issue consists of three papers that deal with social policy, especially social security policy, in the three target regions of the MDT.

Koichi Usami's paper deals with social security reform in Latin America in the 1990s. After sketching the development of social security policy in the region before the 1990s, he described the social security reform in the 1990s. It can be described as a policy change from a public model (e. g., a pay-as-you-go system in pension system) to a market economy model (e. g., a capitalization system in pension system). It was carried out as part of the neoliberal economic policy reform. The weakening of labor unions can be seen as a political factor that allowed the implementation of a market economy model by strong delegative democratic governments. However, this did not happen universally in the region, and in those countries where corporatism still maintains certain political role, such as Argentina, political legacies constrained social security reform.

Takumi Horibayashi deals with the social policy and welfare system in Central Europe. After summarizing the main features of the communist social policy and welfare system, he traces the process of formation and transformation of welfare systems in the three Central European countries—Poland, Hungary and the Czech Republic—since the political change of 1989. His analysis can be summarized as follows: Social policy in the early years of the system change had a character of emergent response to the social cost of the economic transformation. It overlapped with a transition to the traditional European model of welfare. The ILO and UNICEF encouraged it. The influence of permeating neoliberalism

and the World Bank has been enhanced since the mid-1990s. However, the legacy from the communist era still remains. He concludes that the Central European welfare system has developed into a neoliberal system, but has not fully adopted it due to the resistance of the majority of society.

Finally, **Yasuhiro Kamimura** conducts a comparative analysis of East Asian welfare states. So far, comparative study of East Asian welfare states is undeveloped. He tries to fill this gap by answering three questions: why are the social expenditures in the region much lower than those of the developed countries?; has the region come along a single trajectory?; can the region successfully develop the universal welfare systems in times of globalization? The tentative answer to the first question is that economic standard and aging level are the major determinants of the social expenditures. The size of agricultural sector might be another determinant. Concerning the second question, the significant difference in the timing and coverage of pension schemes can be explained by the difference of political structure in the regime-formation period of each country in the region. He poses a negative answer to the third question. Based on his previous research on Taiwan, he asserts that institutional legacy and increasingly competitive international environment will hinder the development of universal welfare systems in the region.

The nine articles featured in this issue describes how states in the MDTCs have been trying to overcome the dilemmas of globalization. In order to fully understand the whole picture of economic policy reform and corporate behavior in the MDTCs, readers are strongly recommended to read the two sister issues of the ISS Research Series, to be published in due course.