
INTEROFFICE MEMORANDUM

to: Raymond Vernon and Dennis Encarnation
from: **Vladimir Petit Medina**
subject: *Final exam*
date: 21/03/12

Answers :

- 1) I agree with the idea that a borderless world could finally cause that Business-Government relations around the world begin to look more and more alike characterized by progressively less important governments.

But some precisions are to be made in order to support this position:

Undoubtedly, there is a new distribution of powers between governments, markets and civil society. This new set of relations implies modern roles and new areas of influence . A quick review of them will ease the proper approach to the problem:

a)The new role of the Government:

1. *The Federal State has become weaker but potentially more efficient.* In fact, the State that used to intervene in almost any single administrative and commercial act has turned into a State much more concentrated on its natural responsibilities (security, education, health,

etc). The chronic inefficiency and impositions of the new economic trends set the new path: a more specialized and more maneuverable state.

2. *Globalization has determined a certain loss of autonomy of the State and a clear redimension of the exercise of the sovereignty itself.* In effect, two precise and parallel processes have undermined the autonomy : the consolidation of entities above the state (as EU) and units bellow the Federal Government that try to rule their own trade relations with abroad. So, regional or global trends indirectly strengthen local governments at the time that weaken federal governments, by consequence.

3. *The room to maneuver for the State is represented by the space between two decisions : overregulating or imposing the right regulation.* As a matter of fact, the new trends have forced to apply new ways to solve the latter dichotomy, such as analytical frameworks and the necessity to preserve property rights and to correct market failures by Government interventions. But, then, the less gigantic State becomes more efficient and more powerful by implication and its interventions are no more considered dangerous but necessary. So, two subsequent acts appear : first the State limits itself to the building up of a proper environment for business, and, secondly, the State

preserves the regulating potentiality, which is an important factor especially when virtually present but not currently disturbing.

4. *What it used to be an imposition appears to be a new sharing power scheme.* So, the power and command are implicitly shared with business, civil society and some International Organizations. Total power is no more exclusively in the hands of the State but the most efficient one: the problem-solving and potentially-viable right to rule in case of failures. The direct and affordable access to technology and the fact that no State can evade technology-based marketplaces without suffer a financial disaster, are the key elements to explain the current situation. Thus, the State is currently compelled by markets and International Public Opinion in spite of its power. This may induce us to consider that the regulating power is just in appearance in hands of the State. But that would not be fair because any how, the State preserves the attribute to determine the content , extension, opportunity and limitations of these measures.

5. *The State has become a global player involved in networks and markets orientations that have specific translations in foreign relations.* In these networks it is increasingly harder to identify a clear hierarchy, which is connatural to the concept of State itself.

6. *Globalization has increasingly eroded the former secrecy that protected many international arrangements.* Then, it is to be considered that preserving some agreements as secret could affect international confidence and domestic reliance.

b)The new role of the business:

1. *Business has become the domestic and foreign dynamo of these ongoing global trends.* So, business is an indirect source of the continuity in the process to get weaker States and more diffused power .
2. *Private companies have benefited from the new financial resources, information access and affordable technology attached to globalization.*
3. *In some cases, the business sector has created a circle of influence in order to stimulate the globalization and some other structural changes.*
4. *The expertise and financial capacity of the business sector may higher than those of many small governments and even of International Organizations.* In these cases, the business sector has become more influential that it could ever imagine, and surprisingly, they have been very helpful sometimes.

5. *Multinationals are no longer an American exclusive initiative but also a mosaic of multiple international interests.* This has taken them apart from their former national interests, creating a deeper sense of fragmentation.

c)New relations/Pros and cons in the frame of globalization

Pros	Cons
<ul style="list-style-type: none"> • <i>The expansion of some private markets and global interests may avoid the disruptive imposition of politically effective policies (populism, protectionism, etc) instead of economically hard ones. A sort of a self protection by giving a sense of no possible reversal.</i> • <i>Governments are more adaptable and may uniform convergence on relations, and they can reach superior levels of efficiency in the public performance</i> • <i>Globalization has a self imposed limit : it is not to prevail upon the roles that only the State itself can play (security, education,job security, health)</i> 	<ul style="list-style-type: none"> • <i>A Weaker State becomes inefficient when facing such an increasing threat as globalized crime</i> • <i>Weaker States could multiply social and institutional fragmentation (it extends to political support, territorial integrity, national unity and social cohesion)</i> • <i>Since the new role of the government is not totally satisfactory to some political establishments, globalization can be blamed for domestic and regional failures (scapegoating). It could hide some real attempt to reverse the situation.</i> • <i>It might distort, in the short term relations among federal and local governments</i>

d) Conclusions:

Weaker States are not a direct result of globalization but a consequence of their previous elephantiasis. And, in fact, I am not assessing a real weaknesses but a

logical downsizing process that may reshape the State itself and redirect its potential intervention mechanisms in the market. This will result in a much efficient performance of the government in further situations. But any change at this level of interests becomes controversial especially in the middle of the adaptive process, which is currently going on.

The new path has made the business and government relations more alike, no doubt of it, but in the new roles to be performed by government and business relations solidarity , collaboration and transparency emerged as the most important elements.

Finally, there is a similar search worldwide : *the search for the right size of the State and the right influence of domestic and international business on essential governmental affairs*. What is clear is that in spite of some important efforts the new path has no expected reversals but an intense and demanding adaptive period.

3)General similarities are evident. Indeed, similar processes have taken place and the sequencing of their steps is very alike but strong differences are still present.

a. Similar processes:

A constant dichotomy with late development of the final solution has been the classical pattern of these relations. It would be helpful to take a look at them:

1. From the weak business/strong state paradigm to the state-led economies, in which the government cannot afford to get involved in every productive sector. So, a new vision of the State as a promoting institution instead of an omnipresent one has gained space despite multiple political objections. And the then weak sector has turned into a stronger one, much more interconnected to the world markets and less dependent on domestic decisions. So, the new relations must be characterized by a sort of collaboration and solidarity. The new role of the State is to create the appropriate environment to stimulate growth (developmental state and market conforming mechanisms). This tendency is bringing closer these two different parts of the world.

2. From the imports-led growth to the exports-led economy (inward looking vs. outward looking). Import substitution was an inward looking strategy. That changed and the new tendency is toward exports-led growth. As in the Asian Tigers, Latin American governments have been recently focusing on the international trade of their products at the time that a big effort to reduce the import components is taking place.

3. Public sector used to be the unique dynamo of economic growth but the private sector has increasingly become a reliable source of productivity. This growing influence of the business sector on the entire economic activity has become an important lesson to this sector characterized by dispersion and leadership failures. It also represents an invitation to increase its presence and an indirect incentive.

4. Strong governments with a variety of functions and hard imposition of policies used to be the key characteristics. The state has progressively been reduced to a more efficient size and the then autocratic system has turned into a democratic system (in most cases) . Also, an unimaginable trend has taken place: the progressive substitution of the former old establishment and bureaucratic elites by a little bit more open-minded ones. Important military presence has gradually decreased. This is not a fast process, as we can see in both zones.

5. Liberalization vs. Protectionism: in the search for exports many countries have tried to offset some potential counteractions by establishing protections for domestic productions. Today, the tendency is more toward the complete liberalization and the full globalization but in gradual terms (very gradual in some cases), remaining some important protectionist measures, especially in Southeast Asia.

6. Openness vs. isolation: closed economies at the beginning, the necessity to compete abroad emerged later, and nowadays, a reciprocal treatment is demanded from other countries. And globalization is constantly pushing to gain momentum and space. So, isolation is no more possible and we find that even the most extremist factions in politics do not dare propose a sort of reversal of the process. They might propose to slow down but not the full reverse of it.

7. Colonialism: In fact east and southeast Asia have a terrible history of foreign occupation and foreign impositions (from political system to limited home rule in Hong Kong and some indifference toward individual rights issues). Just as Latin America.

8.Human capital formation: literacy problems and high-technical level required to improve the global position in contrast with former cheaper cost and the new culture of work.

9.Late industrializers : for different reasons (Japan's openness began in 1868 ,Korea has a similar story but it is different in the case of Singapore and Hong Kong), both areas have had a late industrial development.

10.Geopolitics: The active presence of USA and also its constant supervision over some important policies are a common element. Once the cold war was gone, global trends emerged with great impulse but the control of the United States over some strategic decisions remained constant.

11. Similar regional integration obstacles: Difficult formal integration in the case of Latin America. In East and southeast Asia business usually outpaces government and shows no respect to formal treaties.

b)Differences:

1.East and southeast Asiann Culture vs. Latin-American savoir faire.: an easy differentiation based on contrasting cultures that do not allow to get a sort of cultural convergence in this case. As a matter of fact, two different systems of values and current views may be easily perceived. In the first case discipline, mysticism, blind compliance and strong moral values are symbols of an ancient civilization. Meanwhile, concupiscence, diffuse moral values, rejection to obey superior orders and the disarray in normal routines of lives, easily come up when assessing the huge gap.

2.Ethnic homogeneity vs. multiracial mixture: the east and southeast Asian historic origins are more homogeneous than the historic multiracial

mixture of Latin America. This reinforces the cultural difference and it represents another obstacle for cultural convergence.

3. *Product specialization vs. monoproduction.* Most Latin American economies are characterized by the monoproduction, which is the concentration of efforts on the production of one commodity, sometimes because the historic tradition imposes that path, sometimes because it is the easiest commodity to produce and sometimes because it is in the ground just waiting for being extracted. But this monoproduction is not a response to any attempt of strategic planning. On the other hand, East and southeast Asian specialization in some products has technical and economic explanations and it is the clear result of a severe strategic planning. Undoubtedly the Latin American effort to diversify the production is a radical attempt to change this situation, but is not enough yet.

4. *Organized vs. largely Unorganized labor forces:* Maybe because of the strong influence of the culture of the work and their system of values, East and southeast Asian economies have no well organized labor forces. Meanwhile, in Latin America, there is a largely organized labor force with a strong influence on the economy and even on the politics. Also, it is important to state that sometimes they become the biggest obstacles to any economic reform or plan. Finally, union's noticeable presence has followed autonomous ways to develop itself, even apart from political parties, at the very beginning (Brazil, Argentina and Uruguay and the anarchist movement), but nowadays, most important leaders of the union are members of the congress and important partisan directors.

5. *Institutional integration attempts vs. public and private informal arrangements in East and southeast Asia.* Clear attempts to integrate

regional markets have failed in Latin America (in spite of the appearance of existing treaties as The Subregional Andinean Market, for example) because of the different interests regarding trade policies ,the reminiscence of old frontier disputes and protectionist barriers. But these have been state-state negotiations and state-state confrontations. In East and southeast Asia, the situation is quite different and even the willingness of governments is outpaced by the business sector. Then, formality is destroyed by reality driven by real players and by informal agreements reached within the private sector . In Latin America, governments themselves destroy even formal attempts and they remain inconclusive.

6.The extent to which the bargaining power is exercised as a way to limit multinationals' intentions, is a natural result of different perspectives: In southeast and East Asia it responds to the need to protect determined economic sectors for economic and strategic purposes . In Latin America, it responds to political maneuvers and ideologies. So, the governments' sense of purpose regarding this aspect represents the key discrepancy.

c)Conclusions:

The patterns of business and government relations in Latin America have much in common with those of east and southeast Asia but there are still many differences grounded in important institutions such as culture, government approaches and economic factors that still represent a

huge gap between these two important parts of the world. Neither similarities nor differences are accidents.