

Economics of Politics in a Weak Nation Confronting Globalization

[Reflecting on experiences around the world, this brief was prepared prior to making a presentation at the Royal University of Phnom Penh in 2007 and was shared with friends and colleagues back home.]

Drawing upon experiences in some of the less developed countries and the happenings around the globe over last two decades, I shall try to put together a number of propositions. We may like to discuss each of these propositions separately, broadly reach a consensus, and then attempt to build a broader perspective on the real world – both present and likely future. During the discussion, I shall try to elaborate on each of these propositions based on my limited knowledge. Some of the propositions may not hold for a specific country – and these should be changed accordingly. I will borrow the analytical categories mostly from economics. *A note of caution: our conclusions are embedded in the assumptions we make, and the assumptions are often chosen with a purpose!*

Proposition 1

In overwhelming majority of cases, there is some sort of ‘wrong doing’ (socially and/or legally perceived to be ‘non-ethical’) underlying initial (‘primitive’) capital formation and asset accumulation.

Proposition 2

‘Conspiracy hypothesis’ is more likely to hold as a general principle than otherwise. Interestingly, in spite of outright rejection of such terms in the mainstream, it has similarity with the philosophical perspective on principal contradiction, as well as the literal expression, ‘prime mover’, used in social science literature, and with strategic behavior so often discussed in economics and international relations.

[Explanation: Our intuitions are quite often cast within a framework of some sort of conspiracy hypothesis, and no less frequently opposed and discarded since we are unable to provide the rationale. We do however know that observed outcomes are results of actions of various agents. In an idealized world of competitive market, no single agent can influence the outcome. But it is only in an idealized world, which may surface only by accident and that also, only temporarily. In reality, non-competitive markets are more prevalent. If the outcomes are primarily determined by the objective function of the dominant player(s), one should be able to trace these outcomes to the objective function (duality in economics). ‘Conspiracy’ may be interpreted as a term to suggest that there was a prior motive of a person or a group that led to the outcome, which a truncated model with inadequate specification failed to endogenize.]

Proposition 3

While multiple identities of a single entity are common, at any point in time and in a given context, one observes alliances, which defines an organic whole (a common identity that defines a community or a nation). There is heterogeneity in each of the organic wholes, and there is also a prime mover within each. The internal structure of an organic whole normally sets the parameters of its relations with other ‘organic wholes’.

[Explanation: A dictator is likely to facilitate faster deal, reduce uncertainty and often reduce transaction cost in doing business compared to a less centralized corrupt society. The same dictator may turn out to be relatively more obstructionist compared to a 'democratic' regime (with multiple constituencies) if it becomes too powerful and its interests come in conflict with external powers. However, such a dictator may be more vulnerable to external 'conspiracy' if the dictator alienates herself/himself from the local populace.]

Proposition 4

Rent seeking derives its strength from control over resources, be it owned, or be one authorized to sell/lease out as well as buy/lease in resources. Rent seeking is observed on both flow (of earnings) from existing resources (stocks) and on transaction in stocks. With globalization, local resources found expanded export markets and fetched higher values – far exceeding the loss that the local industry incurs due to opening up of local market to imports. Higher rent seeking, often termed as 'corruption', is therefore an essential correlate of globalization.

[Few observations: (i) When the number of external agents competing for the resources of a country increases (i.e., increased competition), the size of corruption is likely to increase. (ii) Increased financial asset often flow out into deposits in foreign banks or assets in foreign countries, in which case the disparity in local society may not be starkly visible, thereby creating a false impression of 'equality' reflected in poverty measures and also less social tension if the income is not spent locally. (iii) Accumulation from corruption may translate into capital formation. When such accumulations take place within the country, new employments are generated and new partnerships develop. However, this also raises potential disharmony within a society because of disparity being too visible, (iv) A less likely option is sharing of rent within the local society amongst a wider segment of the population, directly or indirectly, so that partnerships are built within the society that is less susceptible to divisiveness prompted by outside instigation.]

Proposition 5

Segmented markets provide the basis for localized non-competitive power; and non-competitive market structure (such as, presence of a monopolist or a monopsonist) leads to market segmentation.

[If there is a global power with an objective function that is optimized, the second part of the above proposition may be shown to hold, even though the objective function is not identical to profit.]

Proposition 6

Export-dependent sector creates a segment in the society which biases policymaking. The sector (such as, RMG) remains vulnerable, and its market prospect is often manipulated later with non-economic weapons. Monitoring of such a sector will give one the signal.

Proposition 7

The prime mover of events in the international arena, including the dynamics within national boundaries in many countries, is the drive to access energy resources – non-renewable ones such as, coal, gas, oil and other higher forms.

[Note: If you are a citizen of a weak but resourceful country, it is important to understand the implications of a global setting characterized by resource grabbing monopolists/ oligarchs. Creating conditions to transform the monopoly setting to one of bilateral monopoly requires ample understanding of the external players. There is, in addition, the need to understand the dynamics that are set in motion within one's own society under alternative actions. There are issues around current negotiations as well as trade-offs between current and future.]

Proposition 8 (the dilemma)

If a 'society' confronts a monopolist (or, a monopsonist at the other end of the transaction), creating another monopoly will yield higher aggregate benefit to all people in the society compared to a situation where all remain equally on the receiving end and passively accept the prices set by the monopolist.

The problem lies in finding the right balance between having a 'monopolist' to represent the society that can distribute the benefits to wider segments to hold the coalition it represents. All these require a level of expertise and integrity that a core group ought to be supported by the current resourceful ones within the society. But, is there such a prime mover from within the local society? Is there a positive likelihood that such a group will eventually emerge?