

Maintaining Economic Sovereignty

by

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World trade and production is increasingly being structured around “global value chains” (GVCs). A value chain identifies the full range of activities that firms undertake to bring a product or a service from its conception to its end use by final consumers. Based on the comparative advantage of the locations, there is geographical fragmentation of production processes across the globe.

The emergence of GVCs during the last two decades has implications for the impact of trade and investment barriers both on the country implementing the measures and on the global economy.

With Economic Globalization comes increased economic integration of the world through trade and capital flows. A recurring issue in the globalization debate is whether it is the political and economic solution to emerging markets, or whether it is a new form of imperialism in which developing economies, rather than actually benefiting from globalization, instead ends up being exploited. In short developing economies, emerging markets and newly industrialized countries could be on the losing end if it engaged in a process of ‘predatory’ globalization.

Diminished sovereignty?

The globalization phenomenon can diminish the sovereignty of a nation state in a few ways. Firstly, through a process of shifting decisions to supranational entities, such as the European Union (EU), that are given the legislative powers in many aspects of social, economic and political life. Secondly, in relation to requirements that come from external institutions, such as the International Monetary Fund (IMF), World Bank and the World Trade Organization (WTO). These International Institutions are able to force the member states to make certain decisions. Thirdly, is when large multinational corporations (MNC), by virtue of their economic power, can influence economic and political decisions of nation states.

The study of international political economy shows that it has always needed a framework to define relations between nations and between economic and political institutions. Imperialism once provided this framework and, currently, globalization does.

However, it is important to realize that globalization, is here to stay. Therefore, it is up to countries to find the ways and means by which not to lose their sovereignty, one of the best ways is to have a strong democratically elected government. For only a strong elected government can translate the people’s will for development and yet balance between the interests of huge corporations and national interests. Above all protecting the nation-state from predatory globalization while at the same time riding the wave of globalization. An unelected authoritarian government or a weak government would have difficulties in governing effectively and legislating equitably and therefore protecting the sovereignty of the nation-state.

In the recent General Elections, Malaysians overwhelmingly rejected irresponsible foreign investments and dubious loans that can burden and ruin our economy. The new Malaysian government, is much more discriminating, and recognises that foreign direct investments and technology transfers from abroad will be crucial to her future.

The Thucydides Trap

Is the United States losing to China in the long-term geopolitical competition in East Asia? Are smaller states in Asia tilting towards China for economic benefits at the expense of US interests? As the rising dragon China challenges the American eagle who does not want to be knocked off her perch, misunderstandings about each other's actions and intentions could lead them into a deadly trap. This trap was first identified by the ancient Greek historian Thucydides.

It was Graham Allison at the Harvard Kennedy School who reminded us of the immediate danger of a Thucydides Trap –he postulated that war between a rising power and an established power is inevitable. Paraphrasing Thucydides from “*The History of the Peloponnesian War*”, it was the rise of Athens and the fear this inspired in Sparta that made war inevitable.

In more recent times, we have to thank Japan for being the strategic counterbalance between the rising dragon China & the American eagle. Against the backdrop of an unfolding global landscape, change is inevitable, unrelenting and overarching. Like the smart proverbial mousedeer (*kancil*), an open economy like Malaysia must learn to dance along with the behemoths of the international trading system, while making the required structural reforms in government and economy.

In this context, the proverbial Malay *sang kancil* or mousedeer is known for its agility and wit. Strategy and timing is of essence, as we dance along the goliaths, we must be careful not get trampled by them. Instead we ought to play according to the accepted rules and reap the maximum amount of benefits. In the final analysis, while we actively participate in Globalization, at the same time we must ensure that our Economic Sovereignty is never compromised.

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