

**MAS-ESS ESSAY COMPETITION 2002**

**The Role of the State in an Increasingly Borderless  
World**

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**By**

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## Summary

The breaking down of longstanding traditional barriers in mindsets as well as physical barriers has brought upon us the new challenges of the increasingly borderless world. In this new environment the role of the state must adapt suitably to changes, preserving both the balances of the old as well as paving new inroads to tackle the new challenges of the future. Only by embracing these changes and responding to the challenges will the nation continue to prosper. My essay looks at the traditional roles of the state in regulating the economy so as to form a basis of evaluation of old policies in comparison with the new present day environment. It then seeks to isolate the fundamentals of the old that are still nevertheless pertinent in our modern day context. The importance of guidelines and regulation in business practices are a case in point to improving welfare of the country's residents. Building upon these past strengths and learning from past failures, my essay seeks to show how we can hence adapt to the new world through government policies which emphasize the role and importance of free trade that benefits our country in this increasingly globalised environment. Next, the essay examines the key role of innovation and change in order to progress. The role of the state, with regards to sacred cows and promoting enterprise is discussed. Fundamental structural changes in the industry which are to be implemented by the state are addressed. This essay argues for economic integration as a means to achieve the ends of economic growth in the face of increasing competition. Finally, this essay concludes by cautioning against

destabilizing the balance between the need for allowing economic freedom while guarding against the dangers that arise from the lack of regulation.

## **Introduction**

The last decade of development has seen a pronounced shift in the focus of the global economy. The new world has seen the breaking down of many long-standing traditional barriers. A wealth of opportunities have arisen. The catchphrase 'New Economy' stresses the importance of knowledge, talent and entrepreneurial spirit in the globalised arena. Countries not embracing change are left behind.

In this setting of rapidly changing global outlooks, the role of the state has come under increasing scrutiny. Traditionally entrusted with the task of safeguarding interests and social welfare, government policy is gradually evolving in order to better face the mounting challenges of the very immediate future. To meet these trials, the state should seek to capitalize on the benefits while minimizing on the harmful influences of globalization.

Traditionally, state objectives in implementing public policy have been due to the following. The main priority of any government is the improvement of the standard of living and welfare of residents in the country. To accomplish this, government policy seeks primarily to achieve socio-economic stability. This is managed by ensuring that firstly, price fluctuations in the marketplace are at a minimum. Controlling inflation is also another priority in order to be able to reduce economic uncertainty. Balance of payments and foreign exchange are also regulated to protect the domestic economy from the rigour of international market

pressure and to minimize reliance on foreign economies. In addition, public policy has to address the failure of market forces to allocate resources efficiently. Public goods, like national defence, have to be provided for the people. Consumption of socially desirable merit goods, like health care have to be encouraged through subsidies. Socially detrimental consumption, like smoking, have to be deterred. Social welfare demands the equity of income distribution through the use of policies such as progressive taxation. Unemployment rates have to be kept low to minimize social discontent. And lastly, economic growth remains a fundamental priority of any government, in order that the nation may progress.

However, it is perhaps fitting that at the turn of the millennium, we should seriously seek to reevaluate the tools of our government agenda in facing the new challenges of an increasingly borderless world. Globalization links the world. In the past decade, economic integration has occurred at an unprecedented level. Today, Europe stands united, utilizing a common currency within a common market. The North American Free Trade Agreement (NAFTA) forms a trade bloc involving the most powerful economy in the world. The entrance of China into the World Trade Organization this year, and the re-emergence of many of the East Asian 'tiger economies' after the Asian Financial Crisis, has attracted trillions of dollars in trade and investment into the high growth potential region. Increasingly, multinational organizations grow in wealth and power. Worth billions, firms like Cisco, Sun Microsystems and Vodafone are able to attract top talent via offering top wages. Mergers and acquisitions lead to the rapid buildup

of lucrative international market share. Armed with expertise and capital, these firms are able to infiltrate worldwide domestic markets, intensifying competition against local firms. Local firms and ill-equipped economies may become marginalized by increasing levels of international competition. The threat is ever present. Thus, the state must strive to do its part in ensuring the continued prosperity of the country in an increasingly borderless world.

### ***Importance of fundamentals***

Yet, even as we seek to reinvent ourselves to succeed in this more open and brutally competitive environment, we must take care to preserve several fundamental aspects of our existing government policy. Even as new objectives strive to claim consideration as priorities in our nation's planning, several of our 'old economy' principles should remain as they will continue to serve us well in the future.

One such objective that should continue to be a priority of state policy is the continued development of infrastructure within the country. As globalization leads to the opening up of domestic industries to intensified foreign competition, firms must seek to provide higher levels of service in order to attract and retain clients. The role of good infrastructure in aiding these firms has not diminished, but instead only grown in importance, providing an essential platform from which local firms are able to compete more successfully. An illustration of the benefits

of good infrastructure in aiding a firm to succeed in the global economy can be found in PSA Corporation. One of the primary reasons why PSA Corporation is able to out-compete its competitors in the provision of global transshipment services, is due to its effective integration of physical and electronic resources, to provide unparalleled levels of service to its clients. In the new economy, firms should seek to achieve such seamless operation. All aspects of PSA's operations are totally managed by its CITOS computer network, enabling over 200 containers to be first unloaded from a single vessel in under an hour, while simultaneously assigning trucks to transport these containers to warehousing facilities, allowing the shipper to achieve a turnaround time of less than a day. Good infrastructure makes this possible. Investment into infrastructure should continue even in times of economic downturn. Government expenditure to build a good transportation and logistics network, develop information technology linkages, as well as liberalization of related industries to promote efficient, low cost provision of utilities will reap exponential returns in allowing local industries to achieve higher levels of operational efficiency to outcompete its foreign rivals and succeed in a fast paced global economy.

In addition, while political and social stability were considered to be the prerequisites for growth in the yesteryear, they cannot yet be overemphasized as we move forward towards an increasingly borderless future. As more multinational corporations seek to invest in opportunities overseas, one of the main deciding criteria would be how conducive the political climate would be

towards business operations. High-technology capital and expertise are especially essential in expanding industries with greater dynamic potential. A case in point would be the emphasis by our country on the sectors of electronics and biotechnology. Capturing potential multi-billion dollar investments required for their startup boost a country's growth substantially. State policy should seek to encourage precious investment through the use of incentives such as tax relief, and schemes that seek to provide attractive measures, such as good infrastructure, provision of a firm support base of related industries and government grants for startups and innovation in related fields. However, governments should not fail to neglect the socio-economic aspect of the borderless world. Issues of welfare and stability should not be compromised, especially in the face of increasing vulnerabilities such as civil tensions from widening income disparity or spread of crime and undesirable lifestyles. Women in El Salvador are paid just 84 cents for every \$194 jacket they sew, or 0.4% of the selling price. The role of the government, is thus not only to attract foreign investment into the country, but also to safeguard the welfare of domestic workers. Economic development at the expense of worker exploitation and human rights is not an attractive prospect.

The basic role of government intervention should seek to correct market failure as well as to provide an adequate legal platform for the industry to operate upon. Today, more than ever, the government needs to clamp down harshly on corruption and business malpractices such as can be seen from the impacts of

recent accounting sagas like the Arthur Anderson and Enron saga. Trust is a fragile thing, the loss of which can lead to even multi-billion dollar firms like Worldcom collapsing overnight. Government regulation cannot be overemphasized with regards to fundamentals such as transparency of accounts. Global firms come to possess increasingly unrestricted power which spread across national demarcations in a borderless society. Their actions result in global repercussions. When Arthur Andersen was declared bankrupt, thousands of employees from worldwide branches were laid off and billions of dollars of deals were lost globally. State watchdogs need to regulate firms to a certain degree in order to ensure proper business proceedings. A harsh hand needs to be dealt by today's state institutions to maintain the mechanisms of the market

As state policy strives to carry us into the uncertain world of the future, it is also essential that we learn from and avoid repeating the mistakes of the past. While it is important that state policy should target high growth rates, caution should yet be judiciously exercised in not allowing the country to succumb to hype and 'bubble building', such as illustrated by the internet bubble of the 90s, as these are just time bombs waiting to explode. For example, an important aspect of state policy should continue to be the need for sound monetary policy. Lessons can be learnt from the hyperinflations of South American countries like Brazil and Argentina. In a borderless world of more trade linkages, sound management of a country's exchange rate policy is necessary as currencies become increasingly vulnerable to international fluctuations. If states are too

enthusiastic in credit creation as a means to fund the new fast pace of growth, they could find themselves neck deep in debts and inflation, which would literally ground the economy to a halt. Thus, it is important in this new environment that caution continue to be exercised.

### **Adapting to the new world**

Yet as we shift towards an age of reduced information and mobility costs, arguably, the core challenge of the state is for it to remain adaptable in the face of mounting challenges. In a world of shortening business cycles, rigid traditional models no longer offer all-encompassing solutions. Successful government intervention in a borderless world should be one that integrates flexibility, together with a philosophy of pragmatism.

Globalization is an irresistible force. The consumer is spoilt for choice by products flooding in from international markets. The recent entrance of China into the World Trade Organization is perhaps globalization's final triumph. Most countries today enjoy the benefits of free trade as well as face the pressures of increased competition. Globalization leads to increased prosperity for the nation. The role of the state is thus to embrace this new wave.

How can the state seek to facilitate the forces of globalization? One such method is in the area of free trade. Free trade implies greater efficiency, and

provides many benefits in a borderless world, such as trade creation, where nations exporting according to their comparative advantages without any trade barriers are able to achieve a higher standard of living from increased output. The breaking down of traditional protectionist tariff barriers between nations help countries immensely in the face of intensifying global competition. For example, Singapore has recently negotiated a number of Free Trade Agreements (FTA) with various countries. This has given local firms an edge in competition over their rivals. Yenom Label Materials, a local producer of industrial-strength stickers saw sales to New Zealand jump nearly 80% after the announcement of the ANZSCEP FTA. Clearly, the benefits of trade liberalization cannot be denied.

Success in a free world has never depended so much on attracting investment. The role of the state is thus in working closely with international and multilateral organizations such as the World Trade Organization (WTO) , ASEAN, APEC and ASEM, as well as seeking out bilateral agreements such as FTAs in order to facilitate the entry of global firms for the benefit of domestic markets. Free trade acts symbiotically with the forces of globalization. Open markets often reap the benefits of economic growth from capital and technological inflows. The government can thus work towards this objective via implementing a competitive corporate system of taxation, where firms are subject to ample tax deductibles and find sufficient incentive from remitted profits to continually enhance their operations while establishing a long term stake in the country's development.

## **A Pro-Innovation Environment**

Innovation is the buzzword of the new global economy. Technological progress occurs at a breakneck pace. Moore's law states that the number of transistors on an integrated circuit doubles every eighteen months. To lag behind the pace of innovation is to become obsolete. In order to remain competitive in an increasingly borderless world, it is imperative for the economy to remain receptive to new ideas and techniques.

What are the implications and how can the state accomplish this? In August 2001, business guru Michael Porter spoke at a New Economy Conference in Singapore about the importance of re-examining sacred cows, such as the role of manufacturing ( in particular electronics ) in our nation's economy. Similarly, the state must constantly seek to reevaluate the workings of its own economy. In today's world, the old adage of 'if it's not broken, why fix it' can no longer apply. Information transfer occurs at such a rate that often, better positioned competitors are always rapidly seeking to surpass you. While it is important to strive towards the higher service industry sectors, the state must also constantly be on the lookout for new niches of comparative advantage so as to plan for future sustainable growth. One such niche at present is the next push into biotechnological industries. Reinvention, or as so aptly stated, new ways of milking sacred cows, are also important. The state can play a huge role in promoting innovation. For example, expenses on research and development can

be made tax deductible. Infrastructure for new niche industries can be developed.

However, perhaps most importantly, the state must seek to cultivate a conducive environment for innovation. Entrepreneurship and risk-taking, constantly looking for new methods to reap even greater gains, are key to success in this world. Industry pioneers must not fear failure. Creativity should be encouraged.

In this regard, the state can play its part by enforcing intellectual property rights to encourage innovation. Also, by investing in education, potential talents for research can be nurtured. Finally, aid in the form of interest free loans, and tax incentives for start up firms can be provided, to help build up a culture of entrepreneurship. These measures would go a long way in pre-disposing the economy towards innovation and preparing the country for the challenges of globalization.

### **Starting from the Basics**

As of present, the most firms in underdeveloped countries are incapable of meeting giants in the cut-throat games of global competition. This may not be due in any part of physical constraints of population or resources. Scandinavian countries are existing proof. Despite their physical limitations, they have

produced many of the globe's well recognized industry leaders, such as Nokia, Saab, Ikea. Rather, these domestic firms often merely require time for which to build up their firm size to a critical mass. Once they are able to acquire sufficient expertise and reap adequate economies of scale, they can then proceed to become successful global players. The role of the state in an increasingly borderless world is to thus ensure that their domestic players succeed on a global stage. Yet protectionism may not necessarily serve the best interests of domestic firms. Global competition, despite its unforgiving nature is the best means to spur a firm to efficiency. Rather than allowing domestic industries to consist of overwhelmingly inefficient firms which drag the economy down rather than pull it forward, the state should aim for rapid integration of domestic firms with the global market competition.

Government policies in an open world should seek to accelerate the integration of local industries into several dominant players for the world market. Despite recent concerns over the merger and acquisitions hype in the United States and Europe, they remain a viable means by which economies of scale can be rapidly achieved. Government policy can be formulated to aid domestic integration, such as via the relaxing of relevant regulation. While the state continues to play an important role in monopoly regulation, domestic monopolies are by themselves constrained internationally by the law of contestable markets. In a global economy, size matters. The big fish usually wins.

Moreover, in line with economic integration, the state can also facilitate the forces of globalization by implementing an open policy towards foreign talent. The role of foreign expertise in bringing firms to the next level of global competition cannot be understated. Simply put, it would be unwise to limit one's outlook to a smaller domestic population, where, with the eroding of global barriers, a much wider market of top talent lie at a country's disposal. One important measure for the state to make is the establishment of merit based wage scales and higher corporate rewards, in a bid not only to attract, but also to retain the very best talent to ensure economic success.

### **Conclusion – The new wave**

In the face of increasing globalization, the main challenge is in accommodating the two pronged objectives of the government. On one hand, traditional enforcement of state regulation is important. Recent cases of accounting scandals, arising due to the lack of corporate governance illustrate this fact. The state needs to play a bigger role in enforcing regulation and firm transparency in order to safeguard the economy. Revolutionary fields with great economic potential, life sciences and stem cell research in particular, may lead to unethical practices which could be exploited for profit. To this end, state regulation is a must.

At the same time, the balance should not be neglected. An oppressive system of laws and restrictions would not successfully fulfill the twin goals of safeguarding as well as nurturing the economy. Policy must not inhibit innovation and entrepreneurship, because ultimately, these are the driving factors in achieving the primary aim of economic growth. Greater global cooperation in free trade and increased domestic incentives in industry would go a long way

The increasingly borderless world harnesses the power of innovation, talent as well as the spirit of unrestricted enterprise. By balancing these energies with that of adequate, but not overbearing regulation, the country can then reap the benefits without succumbing to the pitfalls of globalization. Policies promoting innovation, free trade, economic integration as well as constructive government intervention should be strongly advocated. Only then, by riding the new wave, can success be achieved.

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