

“Small states diplomacy in global competitiveness”

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In the new geopolitics of today, there has been an ‘outpouring of anxiety over the future of the liberal order’.¹ The spillover of this anxiety has opened a dialogue on the ‘new globalization’ in a period of protectionism, weakening multilateralism, and a political assault on global competitiveness. Amitav Acharya, who was accorded the prestigious honor of Distinguished Scholar Award at the 2018 Annual Convention of the International Studies Association in San Francisco last week, for his path breaking scholarship in defining the political architecture of the emerging multiplex world order, summed it up as follows “ *international relations scholars should be wary of conventional wisdom and be open to new concepts and theories, and hence to new possibilities of world order that have no precedent in historywhere scholars and practitioners alike will have to embrace the complexities of this new system”* .

This insight provides the setting for discovering ‘new possibilities’ for small states diplomacy in the upcoming period in economic advancement for small states in an uncertain economic order. The title of the Keynote Speech by Enrico Spolaore on “*small states and the future of globalization*” is a great choice with spot on relevance to the global challenges of our times, and the central theme of this impressive agenda at this conference here in Luxembourg.

The Global Competitive Report 2017-18, affirmed that “improving competitiveness requires the coordinated action of the state, the business

¹ Amitav Acharya, “*After Liberal Hegemony; The Advent of a Multiplex World Order*” in **Ethics and International Affairs**, September 2017

community and civil society”. It focusses on financial vulnerabilities as a threat to competitiveness, and on nation’s ability to finance innovation and technological adoption, spread the benefits of technological adoption and provide worker protection in a flexible labor market.

Global economic institutions must now confront a new quest to design strategies and roadmaps for reform that will build on the achievements of the past, and cope with an increasingly new set of ripples that poses risks to the orthodox practice of development and ignite a search for a new kind of diplomacy.

In this regard, small states have unique challenges, some of which were addressed by the World Bank in their recent presentation titled, *Small States: A Roadmap for world bank group engagement*. With reference to small EU states, the Roadmap identified financial deepening of the private sector - the cascade approach and blended finance approaches – as relevant to enhancing competitiveness strategies in small states in Europe. The mandate of its affiliate the International Finance Corporation is to enhance financial flows for small economies. Capital flows- its direction and sustainability- is key to building resilience for small economies of the world.

This task is anchored in economic analysis, but building a momentum to achieve results is essentially a diplomatic initiative.

The Global Competitive Report linked global convergence and competitiveness, as the economies with higher convergence indices have witnessed greater competitiveness and have grown ‘significantly more strongly’ than less competitive economies. The report identified ‘the importance of a comprehensive competitiveness agenda for reducing between country inequality’ as key to sustaining strong growth within and among clusters of countries. As such, the identification of ‘emerging convergence spaces’ has been a topic of enquiry for ECLAC’s research agenda for Central American and Caribbean economies. The experience of the Pacific Alliance in pooling economic instruments in support of convergence has had promising results. The countries

of the Pacific Alliance have seen their growth rate more than doubled the regional average during the period 2014-16.

The World Bank Roadmap for small states specifically linked financing to competitiveness by carefully identifying seven priority action areas, in which there is need for the development of a global practice. This practice 'include multiple efforts to mobilize concessional and private resources to serve small states clients' development finance needs, particularly addressing financial vulnerabilities' Some of these as it applies to small EU states are; predictability of affordable financing, debt sustainability, access to financial markets and diversification of small economies. With respect to deepening private sector involvement, the report says that the "IFC is committed to helping expand the limited set pf economic opportunities leveraging the full weight of resources of the world bank group. Ensuring obstacles for the poor and the bottom 40 percent of the population to access these economic opportunities are reduced".

One of the flagship economic report that measures business competitiveness rankings is the World Bank "Doing Business" Index. These indicators carry considerable weight in investment attractiveness, and include regulatory hurdles, tax and exchange rate issues, and other measures that make a 'better' business environment. Within recent times, the methodology applied in constructing this index and the integrity of its findings have been under question, as evidenced by an article in the **Economist** "*The world bank ease of doing business report faces tricky questions*" This index attracts extensive international media coverage and its findings are used by "countries against each other to improve their standing". There has been calls to ditch the "doing business' rankings, in light of a diplomatic war between Chile and the editors on the political bias of the findings.

The Global Competitiveness Report recently developed a proposal on "the future of competitiveness benchmarking" which offers an opening for technical negotiations and conceptual innovations in the design challenges. This index is a

valuable measure of how a country is progressing to build structures and processes to support policy initiatives on a global competitiveness framework.

Our paper ² from ECLAC, drawing on the pioneering work of Lino Bruguglio on resilience, constructed a methodology to measure the Caribbean external vulnerability and then argued that the trends in financial flows is key to building economic resilience – by examining the ‘structural variable’ of vulnerability, the ‘process’ variable of fragility and the ‘challenging policy variable’ of resilience – to generate inflow of funds, sustain competitiveness and grow the wellbeing of citizens on a persistent path. While the methodology is applied on data from Caribbean countries, its logic and methods can be applied with equal rigor to small economies of the Europe or indeed elsewhere.

To move the pendulum forward, the technical analysis will need to build a momentum for effective results. As such, the search for diplomatic interventions becomes necessary, within global institutions and in the global policy frameworks that are being framed.

A global dialogue is in the making, and small economies will have a vested interest to be part of that dialogue. It is not only a technical dialogue, but also a matter of diplomacy. In an often cited publication, Tom Long³ argued that “small states can influence institutional rules and procedure....just as for rules shaped by greater powers” Many scholars argue that “small states can ‘punch above their weight’, and according to the paper cited above, *“Luxembourg has been a founding model member of European institutions, and it has used this, to pressure for favorable EU policies, while seeking to strengthen institutions as a bulwark*

² Ines Bustillo, Helvia Velloso, Winston Dookeran and Daniel Perrotti, “Resilience and Capital Flows in the Caribbean” ECLAC (Washington) March 2018.

³ Tom Long, “Small States, Great Power? Gaining Influence through Intrinsic, Derivative, and Collective Power” International Studies Review, volume 19, issue2, June 2017

against historic German French rivalry” Serge Allegrezza explained this in a seminal chapter⁴, and drew attention to ‘competitiveness observatory’ set up by the social partners in Luxembourg and the measurement of the competitiveness scoreboard which was discussed in ‘a special parliamentary session’ on competitiveness and growth.

It is postulated in Long’s paper, that “small states have a greater capacity to influence the agenda in world politics and play a critical role in the evolution of European integration than is commonly understood...inside European institutions, small states can construct a “a position of authority” through diplomacy- by influencing rules and voting procedure” In this sense, small states diplomacy is an essential component of advancing its interest in global competitiveness.

In search of 21st century cooperation,⁵ , Estevadeordal and Goodman show how regional leadership- alliances and networks- fit together to link public goods with sustainability, and with Acharya called for a new conceptualization of regionalism that will embrace more complex situations in a changing ‘balance of power’. Could small states shift global economic structures to favor their interest? Would small states benefit from open trade systems? How could small states overcome their ‘smallness’ and develop diplomatic leverage? These and other relevant questions addressed in work of Henrikson⁶ and Alesina Alberto and Spolaore⁷ provide a critical body of thought that informs the agenda of small states diplomacy in today’ s world.

Regional public goods have once again been cited as ‘important in the context of 21 st -century international relations”. Michelle Egan,⁸ traced the pivotal role of European public good in the foundations of European integration. The range of

⁴ See “*The Economy of Luxembourg*” in Lino Briguglio. (edited), **Small States and the European Union: economic perspectives** Routledge (2016)’

⁵ See **21st Century Cooperation**, edited by Antonio Estevadeordal and Louis Goodman, Routledge, 2017

⁶ See Henrikson Alan K 2001 “A Coming Magnesian’ Age? *Small States, the Global System, and the International Community*” **Geo politics** 63:49-86

⁷ Alesina Alberto, Spolaore Enrico, 2003, **THE Size of Nations**, Cambridge, Massachusetts Institute of Technology Press

⁸ In “*European regional public good*’ chapter 12 of **21st Century Cooperation**, op cit

these public goods include competition policy and market access, common external tariff and trade matters, transportation and cross border services, environment and negative externalities, economic convergence and income and wealth disparities, macro -economic stabilization and the euro, and internal security and border control.

Egan, in his conclusion said “despite the growing chorus of disenchantment in Europe – with the concerns for inequality, productivity and migration – there remains a role for regional organizations to act as catalysts for collective action by providing regional public goods. But Egan hasten to add that it ‘can also weaken democratic institutions and can collapse trust in European institutions”

Small States in Europe are strategically placed to recalibrate its approach to regional diplomacy – in its quest to promote and sustain growth and equity in its development goals. As such, it can bring important lessons to the attention of other small states in the world and add considerably to the expectations of this exercise in global analytical leadership.