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Institutional response to globalization
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Introduction

At the beginning of the twenty-first century, globalization represents a process in which peoples and their Governments are becoming more closely integrated in a wide variety of ways: economic, social, cultural, political and information sharing related. The globalization process is giving more prominence to transnational initiatives and entrepreneurial initiatives, often at the expense of national-level government institutions that have been created by politicians to manage perceived issues. The Governments that seem to be “riding the wave of globalization” are those that have opened their analysis to uncertainty, ambiguity and change. In these globally aware Governments, institutions have been created or altered to scan the rapidly changing environment, to promote policy invention and policy dialogue, to speed up decision-making in order to take advantage of emerging opportunities, and to embrace short-term failures in favour of creating long-term sustainable strategies. Within these actions, one perspective stands out: emphasis on developing human resources within this increasingly globalized world. Thus, the globally aware Governments focus on education that stimulates creativity, health care that supports active minds, employment opportunities that promote invention and innovation, and people-friendly policies that encourage people to “work to live” and to “live to contribute to sustainable global development”. While other reports will emphasize the management of human resources and the stimulation of management innovations, the present report focuses on the nature of the institutions within which people work and contribute to human development.

Specifically, are Governments creating institutions that embrace perspectives and inputs from the transnational and entrepreneurial levels? that is to say, are national-level institutions open to and able to utilize the energy of globally current ideas, as well as the energy of individuals who seek to be relevant and productive? Are the national-level political institutions disciplined enough to listen to the analyses of technical institutions and to experiment with technical strategies that can create productive synergies for the country? Are the national-level institutions structured to link citizens with emerging ideas and to support entrepreneurial activities? Are the national-level institutions organizing their work to respond to the increasingly sophisticated demand environment, that is to say, are they listening to their citizens? Are national-level institutions making “space” for the emergence of strong private sector organizations and vibrant civil society organizations? In the increasingly globalized world of knowledge workers, successful national-level institutions have taken responsibility in the name of
their societies to understand global processes, to experiment with reasonable strategies, to prepare their citizens to be knowledge workers and to place their society not in the past, but in the future.

This report will reflect on four broad concerns:

- How globalization is influencing national governance institutions;
- How Governments are responding to globalization challenges, both conceptually and operationally;
- What lessons can be learned from the experience of positive and negative outcomes;
- What strategies can be recommended for responding to the opportunities and dilemmas of globalization?

Within the United Nations system, much discussion has led to a distinction between “government” and “governance”. Generally, “government” refers to the national political and administrative machineries designed to make policy and to implement decisions. During the last half of the twentieth century, the role of government has expanded and contracted according to both needs and fads. The emergence of the concept “governance” reflects an increasing recognition that fundamental directions and decisions in societies are influenced not only by national machineries, but also by private sector and civil society organizations. Indeed, the interrelationship of government, business and citizens is a current “hot” topic in global, regional and national conferences. Governance can be defined as the exercise of political, economic and administrative authority in the management of a country’s affairs at all levels. Governance comprises the complex mechanisms, processes and institutions through which citizens articulate interests, mediate differences and exercise their legal rights and obligations.

Following this definition, “governance institutions” include the formal governmental organs such as the legislature, the judiciary and the executive and the constitutions, legislation, regulations, rules and systems under which they operate. However, the definition expands to include non-governmental organizations such as professional organizations, activity-based groups such as chambers of commerce and various socially based groups such as those bound by ethnicity and religion. This wider definition of governance directs attention to interactions between government and non-governmental bodies that, through formal and informal frameworks, cooperate in shaping government policies and programmes. Furthermore, this wider definition of governance points out the importance of national relationships to local governments and administrations, as well as to international organizations, including those intergovernmental bodies composed of Member States, as well as the multiplicity of international non-governmental organizations that have arisen in response to all manner of perceived interests. It is notable that the most globally aware national Governments are actively engaged with intergovernmental, non-governmental and subnational organizations. Indeed, the definition of “citizenship” has widened to refer to all levels and types of organizations that people create, join or are related to. Globally aware national Governments view these multiple loyalties not as a threat, but rather as a strengthening process that links their citizens to wider and wider arenas of perspectives and action frameworks.

I. Impact of globalization on national governance institutions

The most dramatic characteristics of globalization at the turn of the millennium are the speed at which change is taking place and the pervasiveness of its impact. National governance institutions are faced with dynamic transformations at the global level and the citizen level. Governments without adequate capacity to recognize and respond to change are destined to be forever behind the “waves of change”. The ability to embrace change is related to an attitude of openness to diversity, comfort with uncertainty, and optimism about the future. Globally aware leaders seek to build institutions that can embody these attitudes and inspire citizens to participate in the emerging aspects of globalization, while at the same time attracting global forces to participate in national development. Strategic participation by both international and citizen organizations enables a country to mediate the impact of globalization and even to thrive in the global environment.

A major characteristic of the globalized world in the year 2000 is the international market economy. After the denouement of the former command
economies, the relative lack of success of the communist development model in the late twentieth century, and the consequent end of the political bipolarization, a global consensus has been developing around the usefulness of market economics. Theoretically, market economics encourages the most efficient use of resources. With international financial institutions and foreign direct investment (FDI) following the market economics formula to determine targets of investment, most Governments have found it useful to build institutions and relationships that support market economics. Some Governments, and indeed many societies, have launched themselves wholeheartedly into the global economy; others are reluctant for a variety of social, cultural and religious reasons. Most popularly, many Governments are attempting to create “capitalism with a human face”, hoping to mix market-oriented economics with socially sensitive human services, such as education, health care and workers’ pensions.

The second theme of globalization is linked to information technology. Computers facilitate an increase in the speed of all types of technological change. Likewise, computers promote the exchange of information, both quantitatively and qualitatively. This information can be helpful to economic progress but sometimes harmful to social values. Acknowledging both potentials, many Governments are maximizing exposure to the pervasive Internet while, at the same time, reinforcing traditional social, cultural or religious values. All of these efforts — from the most enthusiastic to the most reluctant — require serious attention to relevant national institution-building. Infrastructure, policies, training and legal framework are emerging at breakneck speed. Those Governments that are slow in building these institutions find that privately developed “Internet cafes” provide opportunity for citizens to link directly with economic and social trends. Because pro-profit Internet cafes are more accessible to wealthier citizens, Governments seeking to promote equity and the widest participation in development are developing near-free access to the Internet through institutions located in public libraries, shopping centres and government facilities. The more Governments open opportunities for citizens to interact globally, the more these citizens can participate in national efforts to engage in the activities of the global village.

FDIs combined with modern technology, including information-sharing on the Internet, are considered the “engines of growth”. In an open economy — in which labour, capital and foreign exchange markets are not distorted by non-economic factors — private sector-led development is expected to lead to employment-creation and human development. This economic philosophy has profoundly affected the governance environment by promoting a retreat of the State from ownership to regulation and facilitation of the economy. The facilitation role includes providing a stable political climate, market-friendly regulatory policies, a consistent and fair legal framework and streamlined government functions. The literature is replete with references to globalization as a factor forcing institutional reform in the economic and financial sectors so as to secure the fiscal discipline necessary for economic competitiveness and growth.

Along with economics, there has been a globalization of social values and social action. People and societies have been organizing to support “the global village”, while at the same time others have created movements to support particular social, cultural or religious values. Increasingly available to a wider variety of societies, the Internet enables inexpensive, instantaneous communication and massive diffusion of information. In terms of the governance operations, the relatively low cost of information technology can help simplify many governmental processes and put service delivery improvements within reach of the most modestly endowed local-level governments. Similarly, the ease of accessing information has increased so dramatically that citizens at almost all levels of society in many parts of the world are becoming aware of their rights, making their demands known and trying to increase their influence. As a consequence, they are joining together — locally, nationally and globally — to demand better treatment, improved level of services and higher standards of behaviour from their Governments. The emergence of global civil society organizations has paralleled many of the elements of the globalized economy. Indeed, transnational non-governmental organizations have become influential in their spheres of interest, just as transnational corporations have been powerful in many sectors and many regions.

Rather than shrink into a small and unimportant role, the State in the globalized economy plays an
essential role in creating an enabling environment for
the private sector and in conducting government
operations in as efficient a manner as possible so as to
permit scarce resources to be invested in the productive
private sector and the energetic non-governmental
organization sector. The globally aware State is
constantly reviewing its environment, its policies and
their impact. To achieve an adequate level of alertness,
a Government needs to build technical institutions that
have access to information, technology, people, media
and virtually all sources of information and interpretations. Ultimately, these institutions enable a
stable political climate, market-friendly regulatory
policies, a consistent and fair legal framework and
streamlined government functions.

Globalization has very specific consequences for
political, economic, legal, social and administrative
institutions. For instance, in the political sphere, the
most effective policy actions arise from diverse
analyses and fully open debate. To encourage analysis
and debate, a Government creates several institutions
that are linked to each other in the policy process,
along with an active and independent media. After
open discussion of issues and alternatives, citizens and
organizations understand the policy, its
implementation, its intended consequences and the
responsible institutions. In some political cultures,
such a discussion might make a Government appear
indecisive, but this disadvantage is generally offset by
the added wisdom of inclusiveness in decision-making
and empowerment that arises from the citizen-learning-
process.

The policy institutions include legislative bodies
and committees, think tanks, task forces, inter-
ministerial committees, university-based teams,
community-based workshops and national policy
dialogues. Research, debate, joint formulation,
implementation, monitoring and evaluation in public
facilitate transparency which in turn, ensures
accountability. Although there are benefits to involving
institutions, the public and the media in policy debate
and subsequent monitoring and evaluation, these
practices also represent adherence to "globally
accepted" standards. Indeed, there is a symbiotic
relationship between local institutions and global
trends, as exemplified by such entities as international
press freedom associations, Amnesty International and
press clubs.

In the economic area, institutions such as stock
exchanges, independent regulatory commissions,
private sector promotion schemes, trade and
investment guarantee programmes and export
promotion activities, all provide facilities for domestic
and international investors, as well as encourage
confidence that the society is taking the market
economics seriously. In addition, the promulgation of
modern business law and the establishment of an
objective, timely and widespread court system serve
notice that “the national business sector is open for
business”. The streamlining of administrative
procedures, both face to face and through the Internet,
sends a further signal that the particular Government is
serious and that the society is ready.

In the social sphere, the possibilities for
organization and self-organization are infinite.
Globalization encourages a Government to provide
infrastructure for meetings and communication, a legal
framework for registration of non-profit organizations
and opportunities for social groups to voice their
perspectives and opinions. A further dimension of the
social sphere is that of local government, which in its
most developed form constitutes a completely separate
level of legal entities. While social action can be
theoretically restricted, globalization encourages
national institutions to facilitate citizen communication
in order to keep up with the “latest” skills, ideas and
partnerships.

The impact of globalization has been uneven
from country to country depending on the extent of
economic development, as well as the peculiarities of
the political and social environments through which
these institutions evolved. On the whole, for
governance institutions in industrialized countries,
globalization meant the extension of current market-
oriented policies across borders. Emerging issues, such
as subsidiarity, displacement of industries and labour,
continue to be debated. However, the breadth and depth
of capacity of these institutions continue to enable
these countries to internalize globalization without
major crisis or adaptation problems. Besides, as
governance institutions in industrialized countries were
very much in the forefront of globalization, they
generally had and continue to have a head start in
identifying and seeking resolutions to issues as they
arise. Many of the higher- and middle-income
developing countries with relatively stable political
environments have started to gradually adapt to market
requirements on an earlier timetable. Earlier adapters have thus far benefited most from globalization.

During the second half of the twentieth century, many countries were still struggling to implement and to properly operate globally oriented governance institutions. Some Governments still relied on State-owned and State-operated enterprises to provide society’s engine of growth. Over time, negative features, such as the dissipation of resources, the disintegration of political systems resulting from constant challenges to the legitimacy of authority, and pervasive corruption, have fermented the decay of governance institutions. In many cases, the concentration of complete authority in a single entity eroded the principle of inter-institutional checks and balances normally present in the functioning of a government oriented towards the global economy. Without transparency and consequent accountability that are encouraged through open sharing of performance information among branches and levels of government, a single entity is very much tempted to make socially irresponsible decisions. The bright light of civil society and an active media is often discouraged by a “single entity”, thereby reducing the possibility of “sunshine’s” discouraging corruption and other inefficient decisions. The civil service, often bloated by nepotism and favouritism, could not develop and maintain competencies required for good governance and sustained development. Some countries, being not so globally oriented, did not even initiate basic market institutions.

The governance institutions in many of the developing countries required significant reform so as to adapt themselves to the demands of globalization. In many developing countries and in most former Soviet bloc countries, complete reorganization and retooling of governance institutions were necessary. Starting in the 1980s, the multilateral financial institutions, such as the Bretton Woods institutions and regional development banks, induced many developing countries to initiate structural adjustment programmes that would lead to the establishment of a market-oriented economy. In the 1990s, the former Soviet bloc countries were also assisted in implementing such programmes. These structural programmes were aimed at developing the necessary legal and policy frameworks, as well as the organizational competencies necessary to sustain the adjustment programme. Along with these programmes, there have been many reform programmes developed and encouraged by international development agencies and bilateral donors for creating more globally aware and market-friendly conditions.

II. Responding to the challenges: re-examining concepts and retooling operations

Globalization has created a complex equation comprising external factors promoting the globalization of national economies and internal pressures for seeking stability and social protection. This equation has heightened demands for a wide range of institutional reforms and organizational changes required for effective public sector policy and service delivery operations. With such reformed public institutions and a public service, there is a possibility of reducing inequality, ensuring shared development gains and engendering public trust and satisfaction.

A. Internal responses

One of the most significant impacts of globalization has been the evolution of the traditional form of bureaucratic public administration into one based on a broader, more holistic concept of governance, with the focus being on the interface of the public administration with civil society. In response to external pressure and internal demand, modern public administrations are no longer conceived of as insular systems with a uniform organizational structure under the command of one authority, but rather geared towards their “public” with organizational patterns and procedures adapted to specific client groups so as to promote effective service delivery. This shift connotes a conceptual change that emphasizes flexibility, responsiveness, proaction and multisectoral partnerships that encourage transparency and accountability.

The global and local pressures on national government machineries increase demands for Governments to be more flexible, prompt and effective in their policy and operations. The global demands are often expressed through global and regional meetings, in particular the United Nations global conferences. The local demands are often expressed through the political processes and in participatory meetings at
community and national levels. In response, Governments are creating more compact institutions at the top level by reducing the number of ministries and departments and by making each ministry/department effective and efficient in policy-making and coordination. Countries with a large number of ministries and departments, each with a narrow focus, are facing innumerable difficulties in developing coherent policies and providing coordination and leadership for effective service delivery. Global and local pressures also encourage principles of efficiency and effectiveness in the policy-making and operations processes, thereby discouraging the mixing of technical criteria and political and partisan considerations in the creation and maintenance of ministries and departments.

Globally aware Governments recognize the need to encourage participation of all sectors of society. This shift from “closed” to “open” systems mirrors an understandably slower and doubtlessly more difficult shift from authoritarian forms of government to democratic and consensus-building governance. The growing impact of global and local non-governmental actors has resulted in governments that are more exposed, perhaps vulnerable if not properly managed, and ultimately more accountable. At the same time, some statistics point to disquieting increases in unemployment, poverty and ethnic conflict. Many Governments are noticing a direct relationship between equitable, socially just development and the peace and security nexus. Both greater security and more sustainable development are not only compatible with but required by more participatory and democratic processes. There is a worldwide movement to have the highest governance institutions in each country elected on the basis of open and direct elections.

Government economic responses to globalization have been geared towards balancing the tension between social stability and equity, on the one hand, and competitiveness and economic growth, on the other. One of the core functions of governance institutions is to ensure that a comprehensive regulatory regime with appropriate checks and balances is established and implemented effectively with utmost transparency. Sound technical capacity is required. In some cases, economic regulations have induced unintended behaviour, thereby actually distorting markets. In addition, heavily regulated environments have adverse impacts on economic activity. In the 1970s and 1980s, many industrialized countries embarked on serious and successful programmes of deregulation to promote market competition and further investments. In the wake of globalization, many developing countries also embarked on similar programmes. Eastern European countries, in particular, speedily dismantled their legacy regulations. However, many countries still retain a plethora of regulations and multiple steps and signatures for the simple operations, thereby inhibiting their economies from achieving their full potential.

B. National relationships

Globalization pressures, including economic integration, fiscal discipline and democratic governance, have forced governance institutions to redefine their role of universal provider as one that encompasses the roles of catalyst, enabler, gatekeeper, consensus-builder, mediator and negotiator. As such, globalization has led to the development of new roles, relationships and partnerships among government, citizens and business, and heightened the influence of the public on governance policies and institutions. Citizens are achieving greater input into government decision-making; central Governments are decentralizing to local government levels; and Governments are partnering with civil society and the private sector in the delivery of programmes and services. Many examples include: government-sponsored national policy consultations, local service delivery schemes, joint decision-making councils, and other innovative partnership arrangements.

Considerable institutional reform has been noticeable in service delivery. Under the so-called new public management reforms in industrialized countries, delivery of services is benchmarked against best practices, including private sector standards. Service providers are engaging civil society in general and beneficiaries in particular in exploring avenues for improving service delivery. Where feasible, market mechanisms are being used to deliver services through competitive pricing. Such practices are even more critical in resource-constrained developing countries where the marginal costs are very high. Where service delivery has been hampered by poor accountability for results and outcomes, further engagement of civil society is likely to provide informal oversight over service delivery. With public participation, there is less
opportunity for public programmes to suffer from poor quality, gross inefficiency, wastage and misappropriation through fraud and corruption. It is estimated that, in some countries, less than 20 per cent of the resources finally reach the target population, with the balance being squandered. Many countries are beginning to address these problems through institutional and civil service reforms that improve accountability and transparency via such mechanisms as client feedback, surveys and citizen charters.

Globalization has heightened the challenge to government administrations of “governing diversity” within their own borders. This challenge is manifested in heightened demands for autonomy and a political voice, as expressed by regions and communities. In response to these domestic pressures for more participation in decision-making, Governments are formulating strategies towards debureaucratization, decentralization and democratization as means to devolve power to lower levels of government and to multiple actors in civil society. Most significantly, this has involved a gradual transformation from closed, rule-bound, formalistic administrations to more responsive and flexible administrations that seek to be responsive to diverse demand-presenting groups in society, be they citizens, private sector groups, other non-State actors or special ethnic, regional or other interest groups in society.

Decentralization of central government decision-making institutions and processes has been implemented by Governments to meet demands for accessibility, accountability and responsiveness, as well as broad participation in determining public spending and policy-making. Decentralization, considered an antidote to many ills pressing on States, encourages a profound “structural, functional and spatial restructuring of the State”. At the same time as it fragments unitary control over the State, it also promotes consolidation through discussion. Decentralization can potentially break down inefficient, unresponsive central units and create new institutions to better manage services, train personnel, promote financial development, improve administration and establish a closer rapport with citizens, all of which responds to the exigencies of globalization, at both national and local levels.

Globalization is cited as a factor that both encourages and discourages democratization. Some Governments have become more democratic. In 1975, only one third of the world’s countries held competitive elections, compared with 60 per cent today. While “democracy is not as yet uniformly accepted in the general climate of world opinion, democratic governance has now achieved the status of being taken as generally useful, if not also correct”. The democratic tendency requires governance institutions to proactively develop new, innovative power-sharing arrangements (for example, local and regional autonomous governments) so that ethnic and other demand-presenting groups have frameworks within which to present their issues. Furthermore, the so-called democratic imperative requires Governments to build conflict management institutions and capacities so that conflicting interests can be managed non-violently, in ways consistent with local tradition and culture. Government responses have been manifest in a burgeoning interest in the creation of a variety of new institutions and the reinforcement of existing structures. These include human rights centres, ombudsman institutions, minority commissions, national conferences/dialogues, legislative and judicial capacity-building programmes, court-annexed and other mediation programmes, consumer protection agencies and other institutions geared to giving voice and decision-making influence to civil society.

However, globalization has also brought with it constraints on democracy. In economically disadvantaged countries, private and supranational influences on the State have appropriated the choices, policy preferences and decision-making of citizens. Some government regimes have remained repressive and reactionary not only politically but also economically in terms of attracting and retaining economic gains in the hands of the few. Some technocratic administrative elites have behaved corruptly as well and been unaccountable to public scrutiny.

C. Transnational relationships

One result of globalization has been the plethora of organizations, regimes and influences that have changed the nature of the administrative State vis-à-vis transnational issues. Along with greater internal demands, Governments must respond to new and increasing external pressures and can no longer focus on, or operate at, the national level alone. This tendency has profound implications for national
governance institutions and systems, which are being pressured to cede a wide range of domestic powers of the State to private and/or supranational actors, particularly in the economic sphere. As a consequence, States are delegating a wide range of functions both upward to supranational institutions and downward to local governments, civil society and the private sector.

Transnational institutions now play a vital role in numerous areas that were previously the domain of national Governments. This encroachment on the national domain can be seen as both positive and negative. Intergovernmental institutions have helped forge national and international commitment to agreed-upon objectives, such as the aspirations set out by the United Nations global conferences. They have also helped regulate certain international activities, ensured compliance with international standards and regulations and coordinated the actions of the international community. Similarly, global concerns such as air, water and environmental degradation, and international crime, illicit drugs, the arms trade and corruption, transcend all borders and are often better addressed through supranational responses.

However, transnational pressures also hold dangers for developing countries. In particular, some societies have fragile institutions that are unable to counteract political and economic influences. Is the solution to lament these international pressures, to try to reduce them or to strengthen national institutions so that they can better deal with transnational pressures? Globally aware Governments have strengthened their institutions, and when, as during the economic turmoil of the Asian and Latin American regions, these Governments have learned to identify and strengthen weak institutions, they have been able to rebuild their economies. From the intergovernmental perspective, the United Nations system organizations (World Bank, International Monetary Fund (IMF), World Trade Organization) have been major factors in globalization through the negotiation of major changes in the rules for the basis for trade and finance, as well as through the enforcement of their structural adjustment requirements. The influence of intergovernmental processes on the setting of global standards or as "norms purveyors" has increased. A multitude of intergovernmental bodies, conferences and organizations have emerged to launch opportunities for the discussion of world problems and challenges and the building of consensus on new norms. For example, the United Nations global conferences on, for instance, population, women, social development and the environment have influenced the functioning of national institutions and promoted the establishment of new institutions. Considerable pressure has been generated for Governments to adhere to evolving international consensus and standards. These United Nations global conferences have led to the worldwide development of national governmental and intergovernmental machinery to promote the advancement of women; to achieve the goals of sustainable development; and to obtain adherence to minimal environmental standards. Similarly, globalization has raised new challenges with regard to improving the norms of operations and labour standards of transnational corporations in developing countries, areas where the International Labour Organization (ILO) and the United Nations Conference on Trade and Development (UNCTAD) are needed to play a proactive role.

New institutional dynamics have arisen from globalization. There has been an emergence of international and regional relationships based on interests and issues rather than on geopolitical similarities. This has resulted in a multitude of new partnerships and influences on Governments, such as powerful international non-governmental organization networks advocating on a wide range of public policy issues (for example, landmines and human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS)); influential sectoral networks among government institutions (for example, regarding international crime prevention); and independent local governments and government/private partnerships (such as city-to-city relationships and joint economic investment programmes). Government responses to such influential networks and structures have varied from welcoming partnership to resisting international pressures.

III. Lessons and experience

Various regions have had exceedingly diverse histories over the centuries. In the year 2000, some countries seem to be at the peak of global influence; others seem to be increasing or decreasing their global influence. In any event, some lessons can be learned from the experiences of Governments in the last few decades of the twentieth century. With regard to
governance institutions, on the positive side there has been:

- Heightened prominence of State and non-State institutions promoting democratic governance, group and human rights and freedom of the press;
- More frequent holding of elections to choose the political leadership, as well as other participatory mechanisms including decentralized decision-making (although, frequently, decentralization has resembled superficial deconcentration, rather than deeply embedded devolution of power to community authorities);
- Evolution of civil service as reflected in more merit-oriented recruitment and promotion criteria, as well as adherence to a performance and results orientation;
- Evolution of public bureaucracy towards participatory, decentralized, public-oriented decision-making;
- New and innovative experiments in public/private partnerships that are effective and efficient;
- Leaner, more facilitating State involvement in economic activities leading to greater liberalization and improved competitiveness;
- Intergovernmental support for the promotion of norms and compliance with standards improving human rights, the environment, labour policy and other issues of global concern.

Globalization has also led to several negative impacts on governance:

- Heightened economic insecurity, especially for vulnerable countries and marginalized groups within those countries, leading to an increase of unemployment, lower-income levels and living standards, growing inequality and an inability of the State to distribute the benefits of growth derived from globalization;
- Weakened central governance institutions caused by ill-considered downsizing in terms of numbers of staff and lack of investment in their building their specific, and especially managerial, competencies;
- Handicapped public institutions that are limited in their ability to: deliver services, implement newly emerging objectives of the State and develop strategies and policies to respond proactively in the new environment;
- Decentralization of responsibilities to local administrations, local governments and/or local civil society organizations, all of whom may be ill equipped to handle these responsibilities.

Globalization promises great potential opportunities for growth, human development and political and economic security for people. However, these expectations have not materialized in many developing countries. In some cases, globalization may, instead, have contributed to economic and political destabilization. Globally aware Governments establish and/or strengthen the governance institutions that are necessary for the transparency and accountability required for efficient and effective functioning of a State and its globally oriented market economy. The correctness and timeliness of State responses will determine whether developing countries can use globalization to bring their populations out of poverty and insecurity. A large measure of their success will depend upon the components of these responses that have to do with buttressing governance institutions and institutional frameworks.

Globally aware Governments have embraced the roles of enabler, facilitator and regulator of the private sector and civil society. A State will not become effective in the global environment of the twenty first century until its institutions, its public service, its organizations, its leadership — both political and administrative — have the capacity to undertake the challenges and responsibilities of bringing their societies into the reality of the twenty first century.

However, translating political change into an administrative and economic reality requires a long, incremental process that starts with changing the administrative culture. However, assigning the task of transformation to those in traditional seats of power who themselves need to be transformed is doubly difficult. It requires, especially from key political and administrative leadership, strong and high-level political commitment, courage and well thought out strategies to build competencies for and manage the change process.

Experience has shown that the processes of economic reform, notably those conducted under the external pressures of globalization, often weaken the capacity of the State, especially in the initial stages.
One of the lessons learned is that government responses to globalization in the form of liberalization and privatization must take place not at the expense of institutional or regulatory frameworks, but rather under a respected and enforced framework for sustainable economic development. “A strong, transparent public sector is required to oversee the process of economic reform and to create an enabling environment for social development. While there has been a transformation of the public sector towards the role of enabler rather than that of universal provider, this latter function nevertheless requires the strengthening rather than the weakening of public institutions.” This reinforcement of the public sector involves strengthening the legal and regulatory framework and the transparency and credibility of public institutions as well as their capacity for enforcement.

Short-term prescriptive solutions, sponsored by the Bretton Woods institutions, have not always helped a State to integrate into globalization. Furthermore, the pursuit of market-oriented macroeconomic reforms has often resulted in the displacement of vulnerable segments of society. Without strong analytic, decision-making and enforcement capabilities, Governments have failed to counteract the negative forces of globalization, damaged domestic production, and undermined public institutions responsible for delivering social services, and this has resulted in deepening poverty, growing inequality and social disintegration. Few Governments have designed strategies that are necessary and sufficient to overcome these negative consequences.

Both global and domestic market places reward and sanction national economic activities through increases or decreases in investment, the vital element of economic growth in developing countries. However, market-oriented macroeconomic reforms that have been relatively successful in attracting investment in certain developing countries, notably in Latin America and Asia, have been less successful in the least developed countries. The lack of relevant and strong institutions results in unattractive investment environments. Even the existence of strong schools and effective health care creates an unattractive impression when neighbouring countries are indeed investing more in education and health care for their citizens.

Globalization has led to growing disparities between countries themselves and between groups in countries. This increases the challenges to States to address and rectify equity issues. At the same time, the retreat of the State has left it less equipped to protect the most vulnerable citizens. Lack of attention to distribution of social benefits can leave a Government vulnerable to criticism and social action.

In conclusion, the opportunities of globalization cannot be seized, nor the risks contained, without a reordering of priorities and renewed emphasis on strengthening public institutions on some new, as well as traditional, fronts. Some specific suggestions on institutional improvements are noted below.

IV. Institutional reforms for taking advantage of globalization opportunities

Experience demonstrates that each individual country’s conditions and unique characteristics need to be taken into account in order to promote globalization opportunities. However, the experiences of some countries can provide the stimulus for a list of suggestions with regard to providing a firmer base for confronting the uncertain, ambiguous and changing future. The following investments are recommended:

(a) Improving policy analysis and development capacity as a top priority so as to help Governments anticipate and project likely globalization scenarios. Governments need to address the need to build institutional capacity so as to manage the change process itself. Policy development and planning capacity are indispensable for making proactive adjustments to meet emerging trends and to plan for the future. For example, Governments need to provide senior staff, government units and the public with an integrated understanding of globalization and its implications. This may best be done by a multifaceted strategy of: (i) establishing a “futures” research unit to disseminate “scenarios” information to all institutions; (ii) networking systematically with global academic counterparts and networks, non-governmental bodies and global governance institutions; and (iii) undertaking objective, unconventional, future-oriented analysis, involving multiple sources of information and interpretation;

(b) Developing dedicated planning capacity by establishing: (i) a central policy development unit or team; (ii) a counterpart policy formulation unit in key ministries; (iii) a professional crisis management team
for contingency planning (on topics including globalization-caused crises); and (iv) a central "research and development" unit to explore the long-term implications of national policies and strategies. The costs of serious futures planning, while not great, are sometimes difficult to leverage in States where resources are extremely limited. However, they can be justified in terms of what can be saved in the long run in respect of mistakes avoided, crises averted and strategies that are successful. Planning capacity needs to be extended to local levels and into communities in which the ideas and common sense of citizens often succeed over the elegant formulas of national experts;

(c) Reshaping national management institutions so that they contribute to developing policy and planning capacity at central and local levels, as well as serve the expanded governance clientele of government, business and civil society. The clientele of national management institutions should expand beyond traditional public servants to include civil society, non-governmental organizations, community-based organizations, labour organizations and parastatal and private sector enterprises. New subject offerings would help governance institutions cope with the challenges of globalization by providing training in such subjects as: innovative management techniques, methodologies for participatory public policy-making and liaising with transnational organizations and regimes. Furthermore, training needs to be offered in such flexible, user-friendly formats as part-time and evening courses, short-term intensive and weekend seminars, redesigned long-term degree and non-degree training, and dynamic in-service training;

(d) Developing strategic policy instruments, awareness and skills to practise inclusive participatory decision-making with multiple actors and partners in the private sector and civil society; the practice of a purely technocratic bureaucracy focusing only on centralized decision-making and acting unilaterally on behalf of citizens (even if perceived as working for the public good) is considered old-fashioned in the globally aware country. Rather, the central Government engages with the public in processes for dialogue and joint decision-making for its own adaptation and transformation. These integrated partnership processes require outward pronouncements on democratization, decentralization and debureaucratization, as well as the reinforcement that arises from government officials' practising integrity, professionalism and ethics;

(e) Commitment to strengthening of institutional structures, particularly for governance, monetary and fiscal policy, and regulatory frameworks to:

- Conduct “carefully managed and phased integration into the world economy to ensure complementarity with domestic forces of growth”, rather than dramatic one-time liberalizations;
- Improve the analysis of and employ greater selectivity in policies to promote exports and attract FDI;
- Promote, as a priority, tax reform to strengthen government revenue bases and relieve fiscal constraints;

(f) Designing governance policies and the institutions tasked to implement them, with priority for human security and sustainable human development: strategies designed to generate growth in the global economy must be “pro-poor”. Social welfare objectives need to be the raison d’être of policy design, rather than a by-product of growth. Otherwise, growth policies serve only to accentuate disparities in society. Investment priorities should be biased towards the poor over other productive capital; land reform and economic reform should favour small-scale farmers; investments in public infrastructure and policies of liberalization should be crafted to support local entrepreneurs. This obviously “pro-poor, human security” attitude and aptitude in individuals need to pervade the public service. However, it demands as well changes in institutional policies and procedures to strengthen the voice and power of the marginalized and excluded and to ensure their ongoing influence over the content and direction of the policies affecting them;

(g) Developing the government capacity to negotiate and mediate disputes transnationally, bilaterally, and internally between State organs, as well as between and among civil society groups: the ability to negotiate successfully relates to everything from intergovernmental trade regimes, bilateral agreements, public/private investment, accession to regional organizations, and negotiations with advocacy and interest groups, to power-sharing arrangements with minority, ethnic and regional groups, and mediation between conflictual communities by third-party neutrals. In addition to specific skills in mediation and negotiation, mediation requires developing a culture of
dialogue and cooperation throughout society. Governments should invest in developing their national institutional capacity to disseminate such values and skills as widely as possible through all levels of society;

 (h) Creating and strengthening specific focal points in departments and institutions that interface with external relations and with globalization: these focal points would be supplied with information to provide an integrated understanding of globalization and could be used as a resource to be convened so as to develop integrated sectoral policy responses to it. Focal points would be priority candidates for training in fields such as negotiation, mediation, regional integration and civil society/private sector partnerships;

 (i) Building transparent, competent and accessible institutions to manage conflicts of all kinds, for example, labour-management, ethnic/minority, public policy, commercial, civil and so forth, and the concomitant training by those institutions of individuals to staff them. This refers to the need to develop and strengthen human rights centres, ombudsman institutions, minority commissions, mediation centres, traditional judicial systems and the court-annexed mediation programmes that assist them, traditional conflict resolution mechanisms, and other forms of dispute resolution. “Breaking up large States into small ones is often a wasteful and unimaginative way of solving political difficulties” (Secretary-General Kofi Annan (16 February 2000, Jakarta)). Government institutions need to develop the capacity of decentralized public administration to match political decentralization in order to accommodate demands for self-determination within States. This includes formulating and implementing innovative modalities for power-sharing that provide for genuine financial decentralization and local autonomous decision-making. Prerequisite to this is reinforcing local government capacities so that local leaders can manage their new devolved powers effectively. In light of growing urbanization resulting from globalization, the reinforcement of municipal administration is particularly important;

 (j) Improving processes of coordination and cooperation: many developing-country Governments strengthen specific functions without concentrating on how various ministries and departments need to cooperate in order for successful results to reach citizens. Effective coordination involves both horizontal and vertical cooperation among the branches, units and levels of government. Furthermore, cooperation between government and civil society is increasingly essential in order to achieve sustainable results. While a community can be told what to do in an approaching crisis, it is far better to embed in the community the capacity to anticipate and prepare for crises;

 (k) Creating steering capacity for the central government is necessary: experience has shown that a strong central State capable of providing leadership and capacity-building for its citizens needs to develop the institutional capacity for monitoring and evaluating economic and social conditions, as well as ongoing performance. These skills include norm enforcement, audit, control and performance management;

 (l) Establishing multisectoral approaches to building institutional capacity: sectoral programme development can have a multiplier effect far exceeding that of single sector or isolated projects. Furthermore, multisector approaches have the potential to be consultative in nature, bringing together a wide variety of key stakeholders (from inside and outside government) in national conferences or workshops aimed at analysing and diagnosing the sector and its external environment. Multisectoral reform initiatives have the advantage of wider and more integrated analysis, as well as greater buy-in by multiple stakeholders;

 (m) Increasing capacities for democratic governance: societies with strong institutional frameworks and that are also organized along the principles of participation, equity and justice have been better able to weather destabilizing influences, reorganize and plan accordingly and emerge stronger in the globalized world. Given that globalization can have economically and socially destructive consequences, it is particularly important to have credible institutions and processes to promote equitable participation and decision-making and to avert marginalization and exclusion. Democratic governance is expected to have a positive effect on reducing internal and external violent conflict. Thus, increasing the democratic nature of existing governance institutions and designing new institutions that can explicitly address pressures for democratization will go a long way towards helping countries adjust to the exigencies of globalization and prepare themselves for a stable, progressive future.
The era of globalization is characterized by a unique synergy of market, democracy and civil society. This triad has the potential to achieve a participatory, sustainable and just world. However, its success will continue to be threatened by many challenging asymmetries and discontinuities in the distribution of wealth and knowledge and inequality in decision-making processes. National government machineries, as well as intergovernmental bodies, will need to improve their competencies, to reorient their policies, to widen access to opportunities, and to take extra measures, in fact, to compensate the disadvantaged so that they are not marginalized.

**Encouraging active involvement of political process and leaders**

Policy decisions on responses to globalization demands and challenges require critical choices to be made involving both short-term and long-term costs and gains affecting various interest groups in society. Since political leaders have to make these decisions, most of which may have to be processed ultimately through the political process, it is critically important that those political leaders and the political system, both in power and in opposition, develop suitable mechanisms and processes to develop their understanding of the impact of the globalization process and the challenges and opportunities it offers to each country at different stages. The need for such understanding by political leaders and the integration of globalization dialogue in the political process are of crucial significance in developing countries, as the inward orientation of political leaders and their preoccupation with domestic issues often pose serious impediments to their full exposure and understanding of globalization issues. Experience from middle-income developing countries shows that countries where political leaders and their political processes have been actively involved in dealing with globalization issues have made better adjustments and were able to make good use of opportunities offered by globalization (for example, increased international trade) and reduce the suffering from negative effects of globalization. For most developing countries, the most critical decisions are the ones that have to be made in the initial stages of having their countries become actively involved in the globalization process. In order to be able to do this, political leaders need to understand the various impacts and opportunities that the globalization process will produce and to assess the costs and benefits of the various policy options that they have to consider and process them through the national decision-making process.

**Limits of transfer of private sector institutional systems/practices in the public sector**

Globalization pressures require public agencies to be more efficient, flexible and friendly to market forces. Reforms undertaken to achieve such orientation and efficiency have suggested various ways to make public agencies more competitive, and to make them customer-client-oriented and more flexible in their other dealings with citizens. While many of these reforms have resulted in more efficient public agencies, their wholesale transfer cannot be supported without adaptation. Government organizations have to be ultimately accountable to the people, the voters, through their elected representatives. As such, civil servants need to report to political decision makers. While it is possible in some cases to provide a flatter organization and create specific service providing agencies, these arrangements have to be placed within the framework of a transparent constitutional, legal and administrative system. As they do not have the flexibility of the private sector, government agencies cannot initiate changes and restructure frequently, as such changes need to be approved formally by the highest political decision makers. Changes in the public organizations have to be sensitive to clients, interest groups and elected representatives.

Public agencies have to function in a more equity-based and more transparent compensation and incentive system as opposed to the more individualized and differentiated system characterizing the private corporate sector. There may be a limit to the extent to which public organizations can follow a customer/client orientation in their work. Broadly, unlike customers in the business world, all citizens that are covered by public services, whether regulatory, social or contestable ones, need to be treated equally under law irrespective of their taxpaying status or their contribution to State revenue.
Importance of effective institutional reform in developing capacity to deal with globalization

Recent reform experiences in developed and middle-income economies have shown that successful reform in governance institutions and practices is critical to dealing effectively with globalization challenges and opportunities. While the content of reform varies in each country, there are some commonalities in utilizing timing, strategy and tactics in bringing about reform. It has been shown that successful reform is not a one-time affair, nor can it be well planned and mapped out in advance, or completed in a limited term of one to five years. Most countries that mapped out reforms in detail in advance found that significant adjustments had to be made in the process of implementing the reform. What seems crucial in successful reform is orientation and commitment of the system to change and better ways of performing and developing institutions that will consistently exert pressures for improvement, review the experiences of reform and make suggestions for improvement.

Timing for reform has been quite important, despite the fact that many reformist leaders seem to have created their own timing. However, changes of Governments, national turmoil such as economic crises, ethnic violence and insurgency has provided significant opportunities for introducing reform. Similarly successful reforms show not one strategy, but a blend of strategies used to deal with complex situations. While countries followed their unique strategies to reach the common goal of sustainable human development within a context of globalization, it seems that most of them included four elements: (a) competition, prices and contracts, (b) managerial reforms that rely on the professionalism, skill and public service ethic of managers, (c) programme review that relies on policy analysis and evaluation to reallocate resources and redesign programmes, and (d) incremental deregulation that relies on ongoing review of rules and practices to streamline management and remove wasteful controls.

The four approaches have some important common elements. All strive to make public services more efficient and responsive; all seek to strengthen accountability for results and resources; all encourage greater variety and flexibility in the provision of services. However, even when they share objectives, the four strategies proceed differently. A market strategy would lead government to divest certain tasks or activities; it would favour the most efficient (or least expensive) supplier, even if the outcome might be a truncated, weakened civil service. A managerial strategy, by contrast, would seek to strengthen public service norms by giving rank-and-file civil servants a greater voice in running operations and in accommodating variations in local conditions. A programme strategy seeks to optimize social outcomes by shifting resources from lower- to higher-priority programmes. An incremental strategy looks for opportunities to deregulate and streamline management rules.

There is a tendency among some leaders interested in reform not to pay enough attention to strategic consideration, but rather to bundle together all reform slogans without examining the extent to which one might reinforce others. Various strategies need to be examined, and selected through their complementary components. Each strategy raises particular questions that should be addressed in assessing the prospects for success. In the market strategy, one must ascertain whether true conditions for competition have been established. Just labelling something a market or a contract, or assuming that the means of providing a service is contestable, does not make it so. In the managerial strategy, the key issue is whether adequate accountability mechanisms are established. In the programme strategy, the key issue is whether government has the political will and strength to allocate resources and take other actions on the basis of a fundamental review of programmes. Finally, in the incremental approach, the overriding question is whether government can sustain interest and support for reform over an extended period. If these key questions are not addressed in a forthright manner, reforms that showed much promise at launch may fade away, leaving few traces that they were ever tried. This was the fate of many past institutional and management reforms; thinking strategically can help avert a similar fate for current and future reforms.

Strategic institutional and management reforms take time. Many countries are involved in reforms that have been going on for a decade; some, as in the United Kingdom of Great Britain and Northern Ireland, have been going on even longer. In fact, there is no real end to the task of improving public management. As new problems arise and as novel ideas displace old
ones. Governments redefine their expectations. Successful reforms open up fresh opportunities; failed reforms impel Governments to go back to their drawing boards and try again. Nevertheless, all reforming countries face the task of institutionalizing the changes they have made and preparing for the next generation of management innovations. All have to guard against lapsing back to their old ways, while building capacity for continuing improvement. Most still have to work out an acceptable balance among the various strategies. All have to reconsider the role of central agencies and their relationship with operating units, and all have to strengthen the means of maintaining managerial accountability.

No matter how much progress a Government has made through reform in dismantling traditional control mechanisms, it must be vigilant regarding retrograde reforms that restore the old order. The main risk is not that Governments will throw their institutional innovations overboard and reinstall discarded practices, but that, in response to particular problems, they may impose rules and procedures in piecemeal fashion. Relapse might be due to an actual or perceived abuse of managerial discretion, parliamentary demands for information and controls, or the unease of risk-averse public managers with performance-based systems. Each reinstalled rule or requirement may be justified in its own right, but the cumulative impact may be the reintroduction of compliance-centred management. The most effective way to counter such tendencies is: (a) to concede that there is a natural inclination to add controls, and to periodically review the rules and purge those that are deemed redundant or inapt; and (b) to build institutions for a performance measurement system that integrates the precepts of managerial discretion and accountability in law and behaviour so as to discourage irrelevant actions. The first path bows to the inevitability of recentralization, the second seeks to keep reforms of all types moving ahead.