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# Exploring Regional Social Compacts as Resistance<sup>1</sup>

Johannes Dragsbaek Schmidt<sup>2</sup>

## Abstract

The paper addresses four issues in the context of neoliberal globalization and global/regional governance. First it discusses various attempts to theorize and conceptualize the notions of globalization and global and regional governance. Second it looks at the transformation from welfare to workfare and examines the impact of global restructuring on labour and social conditions in the North and the South. Examples of the distributional consequences and resulting inequality, poverty and unemployment are provided. Third this process has had a huge impact on the emergence of regional social compacts based on varieties of social consultation and social reconciliation. These agencies are mainly adjustments to neoliberalism or internationalisation of the state. The pros and cons for these social compacts are discussed and finally the paper rounds up by exploring new attempts to challenge the existing dogma of global governance

## Introduction

Economic globalization is said to bring with it the material basis for the transnationalization of political systems, civil societies, social classes and cultural life. As a new social structure of accumulation unfolds national societies are transformed and are forced to integrate one way or the other. Information communication technology and the new knowledge based-economy provide a strong impetus for nation states to act regionally to increase negotiation and bargaining power in the global economy. Gone are the days of various state-led experiments based on Keynesianism, corporatist and nationalist cum populist modes of dirigisme, and developmentalist states based on an egalitarian Listian neomercantilist strategy. The nation state as the main mobilizer for development is restructuring and new political forms of governance are emerging at both global, regional and sub-state levels.

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One such initiative came with the UN Commission on Global Governance which has defined global governance as “the sum of the many ways individuals and institutions, public and private, manage their common affairs” (1995:2). The reform process of the global governance system led in 1999 to the announcement of a Global Compact. The idea was to advance ten universal principles in the areas of human rights, labor, the environment, and anticorruption. The Global Compact is a voluntary initiative with two objectives: 1) streamline the ten principles in business activities around the world, and 2) catalyze actions in support of UN goals.

More than 2,000 companies from over 80 countries have joined the initiative together with many other social actors from business, labor, and civil society. This initiative illustrates a new emerging trend in global governance which indicates that the old Bretton Woods regime is being replaced by new actors. It is also the result of an endemic crisis of democratic global governance as the world seemingly is being fragmented into nations, regions, cultures, and communities. As Held et al mentions “Growing nationalism and global inequalities reinforce cultural divisions and global fragmentation. Cultural relativism too, increasingly a hostage to authoritarian politics, undermines the basis of common agreement on democracy as a global ethic” (1999: 451).

However, the UN initiative has been criticized for relying on a mainstream understanding of globalization and global governance with the Global Compact seen as an attempt of cooptation into the Washington consensus and support for corporate globalization. It also raises the question why global governance matters! As can be seen from the above definition it implies a normative plan for an international order, as a portmanteau term for institutions and practices favourable to peace, development and effectiveness. The underlying assumption is based on a problem-solving approach; that an issue can be managed, a problem resolved; that there be accommodation of mutual interests (Smouts 1998: 88). But as Craig Murphy reminds us, the international system has to take into consideration that the new world order will have to accommodate the emergence of new actors. As he points out we live in a world where China and India are shifting the balance of capitalism away from the West to the East - with these emerging economies comprising half the population of the globe it seems odd to spend so much time investigating the world polity. His answer is moral and ethical. What has emerged in the past decade in the debate about global governance is a renewed focus on a double-crisis of governance and globalization. The old types of public institutions underpinning global governance like IMF, the World Bank and WTO “through their promotion of unregulated economic globalization have contributed to the growing number of the destitute as well as to the growing privilege of the world’s rich” (2000: 791). These institutions are called *nebuleuse* by Robert Cox or in other words ‘governance without government meaning the cloud of ideological influences that have fostered the realignment of elite thinking to the needs of the world market’ ([1992] 1996: 300-302).

It is within this stalemate that the new actors have emerged and created a whole new ‘development vocabulary’. In neoliberal newspeak (Bourdieu and Wacquant 2001; Hersh 2004) this situation is sometimes referred to as ‘global public policy networks’ or so-called ‘private-public regimes’. New transnational problems have emerged, and others have intensified or simply gained increased importance on the public agenda. At the same time, transnational corporations (TNCs) are attempting to shape the course of globalisation and now hold considerable leverage over vast networks of suppliers and, to varying degrees, governments, international organisations, global civil society and NGOs. Some commentators add global integrated mafias and a narrow group of

economists who define the norms and ideology of that profession and the treasuries and most important private institutions of capital regulation.

The newspeak is embedded in mainstream governance theory which normally operates with three basic principles of organizational structure - hierarchy, market, and network. Interestingly its counterpart in international relations perspectives approach governance through the dichotomy of anarchy and hierarchy. However, "economically 'rational' responses do not emerge automatically in the political sphere; they are bound up in complex processes of social and political intermediation involving values, identities, and social bonds, all located in particular time/space contexts" (Cerny 1999: 189).

Whereas governance can be defined simply as organizing collective action or in the instrumental sense, it entails the establishment of institutions being the rules of the game that permit, prescribe, or prohibit certain actions (Prakash and Hart 1999), globalization usually refers to the internationalization of goods, capital and services. According to the proponents of globalization, the hegemony of international capital and global markets forces a 'neoliberal convergence' of domestic political capacity where national autonomy and sovereignty are conceded to the market. It furthermore, increases economic and financial openness, technological change, compression of time and space, consumerism and neoliberal economic policies. The neoliberal form of globalization is based on an ideational consensus which usually refers to a set of ten policy prescriptions (Williamson 1990) resting on fiscal discipline, market economy, and greater openness to the rest of the world.<sup>3</sup> However, with regard to the North-South dichotomy Williamson later

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<sup>3</sup>Williamson's (1990) ten policy actions were:

1. Budget deficits. Should be small enough to be financed without recourse to the inflation tax.
2. Public expenditure should be redirected from politically sensitive areas that receive more resources than their economic return can justify....toward neglected fields with high economic returns and the potential to improve income distribution, such as primary education, and health, and infrastructure.
3. Tax reform .... So as to broaden the tax base and cut marginal tax rates.
4. Financial liberalization, involving an ultimate objective of market-determined interest rates.
5. A unified exchange rate at a level sufficiently competitive to induce a rapid growth in non-traditional exports.
6. Quantitative trade restrictions to be rapidly replaced by tariffs, which would be progressively reduced until a uniform low rate in the range of 10 to 20 percent was achieved.
7. Abolition of barriers to the entry of FDI.
8. Privatization of state enterprises.
9. Abolition of regulations that impede the entry of new firms or restrict competition.
10. The provision of secure property rights, especially to the informal sector.

admitted that the policies were perhaps too rigid for developing countries (2002). Its most important impact in terms of economic policy is that it performs the role of a powerful discourse that shapes domestic and international debates, a process which has changed the state's role to one of an "enforcer of decisions and/or outcomes which emerge from world markets." (Cerny 1997: 258; Beeson 2001: 483). Until very recently this discourse ruled by consent, and promoted by a constant discursive intrusion on the majority of global, regional, and national policy and academic circles is now being challenged by a number of new issues, factors, actors, contradictions and conflicts.

This paper follows the approach proposed by Cerny (1999: 194-195) who suggests that the type of collective action and global governance emerging out of the ashes of the old Bretton Woods system is characterized by a complex process deriving directly from structural differentiation. This implies that we should identify the main kinds of structural differences which characterise the new world order - not holistic categories based on territorial boundaries, but what might be called functional categories. I won't go into detail with this framework, because it entails a broader perspective on security and institutional economics, but rely on its usefulness in terms of investigating a more complex and multi-hegemonic world and concentrate on the emerging regional social compacts which I see as one of the most important responses to the crisis of neoliberal globalization.<sup>4</sup> This is in essence what some authors refer to as multilayered global governance and it is in this context that a comparative analysis of regional systems of social redistribution, regulation and empowerment becomes relevant as a new form of resistance. Regional governance is becoming a more entrenched feature of the global political economy, whilst inter-regional diplomacy, through which regional associations seek to build global alliances and preferential agreements, is a potential countervailing influence to the power of the United States, in dominating global agendas and setting global priorities (McGrew 2003: 11). The political ambition of establishing regional coherence and regional identity is of primary importance. It is possible to distinguish between three kinds of region building initiatives: integration through trade liberalisation; regional governance; and regionalism as citizenship or political identity. Along these variants of regionalism enter questions of redistribution, democracy, accountability, participation, transparency, security and social policy. This has brought with it a new set of social and political actors but also highlights the fact that regionalism in many cases is based on "the idea of regional identities and the catalytic challenges posed by external challenge" (Breslin, Higgott, and Rosamond 2002: 8).<sup>5</sup> In this respect, regional social compacts ought to be understood as constructed endeavors of resistance by social actors in response to the looming crisis of contemporary international capitalism. In this sense, the regional dimensions of structural change have been something of an inconvenience for the less reflexive 'globalizers' who have used the hegemonic discourse of globalisation to dispense with any meaningful notion of a national state (Phillips 2000: 386).

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<sup>4</sup>The notions social compact and social contract are used interchangeably. Compact or contractualism originally stems from Hobbes and Locke but was developed in a different direction by Rousseau (1913 [1762]) who argued that through an ideal social contract, individuals would freely consent to exchange their natural autonomy for a share in government. This could be achieved only by a direct, participatory democracy, which would be directed by the 'General Will'. It can also "be modified to identify an arrangement where government make an implicit or explicit promise to deliver benefits to citizens in exchange for political support and stability (Hewison 2004: 520).

<sup>5</sup>There are resemblances between this approach and the literature on New Regionalism (Hettne, Inotai and Sunkel 1999/2001) especially in the emphasis on a multipolar view of world order and the less institutionalized view of regionalism thus it also involves a greater role for civil society actors.

The paper addresses four issues in the context of neoliberal globalization and global/regional governance. First it discusses various attempts to theorize and conceptualize the notions of globalization and global and regional governance. Second it looks at the transformation from welfare to workfare and examines the impact of global restructuring on labour and social conditions in the North and the South. Examples of the distributional consequences and resulting inequality, poverty and unemployment are provided. Third this process has had a huge impact on the emergence of regional social compacts based on varieties of social consultation and social reconciliation. These agencies are mainly adjustments to neoliberalism or internationalisation of the state. The pros and cons for these social compacts are discussed and finally the paper rounds up by exploring new attempts to challenge the existing dogma of global governance.

### **The transformation from welfare to workfare**

During the past two decades we have witnessed an almost epochal shift in the balance of social forces. The world economy has been transformed from the 'Golden age' to the 'Leaden age' as a result of overproduction, falling prices, cyclical crises (sixty-nine major banking crises from the 70s to the 90s according to the World Bank) - the majority of which took place in so-called transparent developed economies.

In comparison the Golden Years of capitalism in the 1950s-1970s saw very high growth rates averaging 4-5 percent, while the present phase of neoliberal globalization has seen dismal growth rates of about 2 percent (also Ricupero 2004: 3).<sup>6</sup> The prospects of achieving full employment seem to have permanently receded from the global agenda. Global unemployment rates are reaching proportions leading to a downsizing of the welfare state itself. As will be recalled the resolution of the great depression demanded the emergence of the Keynesian macro-economics model with its societal welfare compact.

Comparative political economists have developed different arguments regarding the determinants of social policies.<sup>7</sup> One type of argument points to the fact that the convergence of social welfare policies can be related to an underlying logic of industrialism, while another sees them as state responses to the social requirements of capitalism. A third view approaches the problematique from quite another angle by suggesting that the survival of market-based capitalism is essentially based on a Keynesian strategy which saves it from self-destruction (Galbraith 1997: 5). The necessary prerequisite is a compact between labor and capital. This type of argument is based on two readings of the Keynesian Social Welfare model. One sees it as a tool of compromise when the foundation of capitalism is at stake like during and after the crisis in of the 1930s and post WW II. The second reading regards the socio-economic dimension (i.e. the surplus absorption); by functioning as a demand primer, including social expenditures, Keynesian macroeconomics

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<sup>6</sup>The period extending from the end of the Second World War to the oil shocks of the 1970s, roughly the 30 years that the French call *les trente glorieuses*, "the glorious thirties", coincided with the reconstruction and recovery of the European and Asian economies that had suffered widespread destruction during the conflict (Ricupero 2004: 3)

<sup>7</sup>For this and the following see (Schmidt 2000)

alleviate the tendency towards stagnation (Schmidt & Hersh 2000: 8). These readings form the foundations of Scandinavian corporatism - where the state is projected to be the arbiter between labor and capital.

This understanding is closely related to the important debate regarding the past and present of the way ties to the world economy, patterns of geopolitical and geoeconomic competition, and processes of transnational cultures, ideologies and policy discourses have influenced social policies. The impact of the external determinants on social policy agendas and labor market policies cannot stand alone, but should be paired with an understanding of the impact of states on social and labor market policymaking.<sup>8</sup>

Until the beginning of the 1970s where the neoclassical counter-revolution (Toye 1987) took place, it is commonly recognized that by the late-20th century three ideal types of functional industrial capitalist organizations had emerged which can be analyzed on their own merits in spite of the hegemonic position in the policy-making institutions which neoliberalism later on achieved (cf Schmidt and Hersh 2006). Japanese, US and European models of capitalism have many distinct characteristics. Trade, production and financial networks are tied into the different models. There are also important inter-regional differences as well as intraregional differences and exceptions (like the Philippines in East Asia, Chile in Latin America, and Mauritius in Africa).

- 1 The market-led type of capitalism principally identified with the United States and the United Kingdom is generically seen as “neo-American” or “Anglo-Saxon” capitalism (Albert 1993). The basic characteristic, as related to the accumulation of capital and societal arrangements, is that economic decisions are overwhelmingly left to the discretion of private actors who are given the space and opportunities of maximizing the short-term profitability of the enterprise and to raise needed capital in available financial markets. As far as the socio-political dimension is concerned, labor enjoys, in this type of society, limited legal industrial and social rights, with workers’ livelihood depending on the wage they can negotiate with employers in a more or less unregulated labor market. With regard to state involvement in the economic sphere it is primarily centered on creating and protecting a favourable environment for productive and financial capital markets. In these societal arrangements, politics, morality and ideology lean towards promoting individualism and liberalism. In the *laissez-faire* model of US capitalism, the role of the state with regard to social protection is one of minimal allocations to low-income groups. Private insurance schemes are worked out at the place of employment. The Thatcher/Reagan counter-revolution spelled the end of the New Deal/welfare state and the introduction of lean and mean capitalism.
- 2 The second model is what has been categorized as state-led capitalism. Also in this type of society, decision-making at the micro-level of accumulation is understood to be the privilege and responsibility of the private enterprise. But in contrast to market-led capitalism,

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<sup>8</sup>Social policy here understood broadly as social security, health and education.

strategic business decisions are made in collaboration and contact with public agencies and often indirectly arrived at through the administrative guidance of central planning organs and state leadership of the banking system. In these capitalist societies, labor organizations and movements lack political and social rights as well as institutionalized representativeness. While the space for labor bargaining ties some workers to large private corporations through enterprise-based welfare benefits, employment conditions in family and medium-sized factories are more precarious. The ideological hegemony of the ruling elite, which influences the management of society, is most likely to be based on some variant of economic nationalism. Socially and politically, there is an alliance between the bureaucracy, industry/business and the governing political party. Having excluded the participation of organized labor at the macro decision-making level this is regarded as corporatism without labor. The rationale for this arrangement is based on the imperative of late industrialization and “catching-up” that legitimize the social control posture of semi-authoritarian or authoritarian regimes. The prototype of state-led capitalism in the aftermath of the Second World War has been that of Japanese society and that of South Korea after the Korean War. These cases, together with Taiwan, were later joined by countries in Southeast Asia and China and are considered to be representative of a particular variant of capitalism known as the model of “East Asian capitalism” or the “Developmental state” form.

- 3 The third type of industrial capitalism can be referred to as negotiated or consensual capitalism. Its basic characteristic is that, whereas the degree of direct state regulation of capital accumulation may be limited, the political system allows a series of workers’ rights and social welfare; organized labor is accepted as a market actor who to some extent has participated in macro-economic decision-making. Thus in comparison to the aforementioned state-led variant of capitalism, the corporatism of consensual capitalist society does include labor. Culturally and ideologically, these capitalisms have tended to be either social-democratic or Christian democratic. These types of political parties had to compete for the allegiance of the working classes and aside a strong anti-communist bias internally, they have been antagonistic towards the Soviet Union and pro-American externally. Although differences are discernable especially with regard to income equality or gender equality~ the Scandinavian “Welfare state” models as well as the West German “Sozialmarktwirtschaft” have been considered exemplars of this capitalist variant under the label of “European welfare capitalism” or the “Rhineland model” (Albert 1993).

The shift from the Keynesian welfare state and the Listian developmental state to the less state-centered Schumpeterian workfare state involves subordination of the social sectors to the needs of labor market flexibility and much more emphasis on the promotion of products, process, organizations, and market innovation in open economies, in order to strengthen as far as possible the structural competitiveness of the national or regional economy by intervening on the supply-side. In particular, the Schumpeterian workfare regime marks a clear break with the welfare cum developmental state in so far as a) domestic full employment is de-prioritized in favor of international competitiveness; b) redistributive welfare rights take second place to a productivist re-ordering of social policy; and c) the primary role of the nation state is deprivileged in favor of governance mechanisms operating on various levels (Jessop 1999: 69-70).

However seeing societal arrangements and levels of inequality as the outcome of economic and

political imperatives for the functioning of capitalist industrial societies under specific conditions does not automatically signify that their scope and reach are predetermined. The differences in benevolence and inclusivity as well as democratic foundations of these regimes have to be explained as functions of societal agencies and social actors who are also influenced by their existing (political) cultures. Although social control is inherent to this type of industrial societies, it can take various forms. While the end result of social well-being may very well involve neutralization of dissent and dissatisfaction it might be preferable for the populations compared to more coercive regime types. Given its adaptability, the ruling class may, under specific conditions, well be willing to impose its hegemony by means of consensual corporatism whereby labor is also included.

The international trends of the 1980s and 1990s were superimposed onto a regional grid, which led to a differential impact and response. In the Western hemisphere, where US influence is strongest governments adopted the neoliberal dogma and reduced state involvement in the economy, slashed tariff and other trade barriers, and welcomed any type of foreign capital. In the Japanese sphere of influence, by contrast, some privatization took place, but governments continued to collaborate closely with the private sector (Stallings 1995: 2).

Increased international capital mobility has resulted in significant levels of welfare retrenchment during the 1970s and 1980s. For instance Sweden and Germany reduced welfare expenditures and introduced privatization in the areas of healthcare, housing and day-care centers. The most radical version of welfare reform has involved the privatization of the public pension system. Along the lines of the Chilean model, which was developed in 1981, a number of countries from Latin America (Mexico, Argentina and Uruguay) and the former Soviet bloc (Hungary and Poland) have dramatically privatized public pension systems in order to reduce government expenditures and deficits, and downsized government (Kim 2005: 377). However, as I will illustrate below, the impact has not been uniform. The welfare state and its traditional industrial relations institutions and trade unions have in some cases, especially in the Scandinavian region, been resilient despite massive domestic and international pressures. It entails that; (1) domestic labour institutions remain fundamentally unchanged, and (2) that union density, union coverage, union monopoly on interest representation and centralized union authority remain coherent and significant in national policy making (Minnich 2003: 32).

The distributional impacts of the restructuring from welfare to workfare have widened the global levels of inequality and polarization, and created frictions between democracy and globalization and thus corroded the notion of social solidarity. The direct impact has essentially been a hollowing out of territorial democracy and the social cohesive state (again with important exceptions). Despite the claims of the promoters of neoliberal globalization and no direct evidence of the benefits for society of private sector involvement in education, health services, and the mixed results of private-public partnerships in water and sanitation utilities, there is relentless pressure from all IFIs – “through inter-locking conditionalities and other means to promote the growth of the private sector in basic social services, and where possible privatization of public services. This pressure, which signals that the Washington Consensus is alive and rejuvenated, tends to ignore the historical experience of both industrialized countries as well as that of high-achiever developing countries in education, health and water/sanitation” (Mehrotra and Delamonica 2005). The end result of the Golden Years of neoliberal globalization has been devastating as the global levels of inequality, unemployment and poverty have increased tremendously. The following can only give

some examples of the socio-political consequences of the 'commodification' of economic and social relations as space does not allow a detailed description.<sup>9</sup>

ILO figures show that of the more than 2.8 billion workers of the world half have wages below the US\$2 a day poverty line (see also table 4) (ILO 2005: 2) Among these working poor, 535 million live with their families in extreme poverty on less than US\$1 a day (ILO 2005: 2). One consequence has been a tremendous growth of informal and casual work. According to ILO, the urban informal economy was the primary job generator during the 1990s in Latin America. In Africa, the informal economy generated more than 90 per cent of all new jobs in the region in the 1990s (cf Schmidt 2006).

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<sup>9</sup>See the chapters in B. N. Ghosh (2006)

Furthermore, changes in the nature of work have led to increasing levels of casualisation, and competition in secondary labor markets for jobs characterized by low wage and poor job security. For instance the increase in unemployment in Latin America from 6.9% in the 1990s to 10.0% in 2004 has been coupled with an expansion of informal economic activity. As a result, over the past decade, 70% of all new jobs have been created in the informal sector, while over 63% of the employed members of the poorest 40% of households work in the informal sector and must use their entire labour income simply to meet their subsistence needs. This is seemingly the result of the increasing flexibility of labor markets and coupled with the downsizing of social security the consequence has been a loss of "social cohesion needed to pursue collective endeavours is also seriously impaired and democratic channels for participation are undermined" (ECLAC 2005: 7).<sup>10</sup> Regional adjustment in Latin America to the global economy has been affected through the neoliberal guideline, which is most advanced in this region, and is based on creating the optimal environment for private transnational capital to operate as the putative motor of development and social welfare (Robinson 1999: 48-49).

Taken together the Asian, African and Latin American situations indicate a worsening in unemployment and labour market conditions. In addition, unemployment rates in many countries mask widespread underemployment. The working poor are largely invisible in official statistics. Billions of women and men do not have work that taps their individual creativity and utilises their productive potential. For the most part women's work remains undervalued and unaccounted for (Schmidt 2006). Obviously, the exceptions to this picture are Japan, China, South Korea, Taiwan, and to a lesser degree Southeast Asian would-be NIC countries although even in these countries inequality and unemployment has been on the rise.

Finally, the evidence of growing inequalities between the North and the South is not hard to find: "The income gap between the fifth of the world's people living in the richest countries and the fifth in the poorest was 74 to 1 in 1997, up from 60 to 1 in 1990 and 30 to 1 in 1960" (UNDP 1999: 3). The levels of inequality in the global realm are also increasing in the developed North itself.

The middle class is being hollowed out under the jobless growth regime in the United States where a certain degree of Thirdworldization has taken place. During Bush's presidency the US has experienced the slowest job creation on record (going back to 1939). In other words there is, what some commentators call, a job depression in the US economy. Stephen Roach of Morgan Stanley reports that the mood at the recently concluded Davos meeting was downbeat, because the predicted "wins" for the industrialized world have not made their appearance. Roach points out that 'job creation and real wages in the mature, industrialized economies have seriously lagged historical norms. It is now commonplace for recoveries in the developed world to be either jobless or wage less-or both.' Roach is the first free trade economist to admit that the disruptive technology of the Internet has dashed the globalization hopes. It was supposed to work like this: The first world would lose market share in tradable manufactured goods and make up the job and economic loss with highly-educated knowledge workers. The "win-win" was supposed to bring about cheaper manufactured goods to the first world and more and better jobs for the third world. It did not work out this way, according to Roach, because the neoliberal dogma and the Internet allowed

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<sup>10</sup>The inequitable distribution of income is a reflection of a highly uneven distribution of assets (land, capital, education and technology) and unequal access to them.

job outsourcing to quickly migrate from call centers and data processing to the upper end of the value chain, displacing first world employees in "software programming, engineering, design, and the medical profession, as well as a broad array of professionals in the legal, accounting, actuarial, consulting, and financial services industries." (Morgan Stanley 2006; Roberts 2006).

The point is that in tandem with the attack on the social regulation of the nation-state the social compacts are increasingly being restructured to meet the interests and conditions set by the global elite - and the most important impact is the loss of national regulation over labor markets. A certain degree of convergence in terms of social regulation of the wage relation implies that capital no longer needs to worry about the reproduction of labor power or domestic markets (Hoogvelt 1997: 148; McMichael 2000: 182-183). However, as I will show in the following there are important exceptions and examples of divergence as well.

### **New regional social compacts**

It has been predicted again and again that the global economy would break down into a triad, centred on the EU (Euro), the US (Dollar) and Japan (the Yen). As a matter of fact what has emerged is an East Asian mastodon region encompassing China, Japan and other Asian countries and on the other side the United States. As the UNCTAD Secretary General Rubens Ricupero notes "inside this heterogeneous group, the Asians export to the gigantic "black hole" of the American market and finance its enormous external deficit through the purchase of dollars and Treasury bonds. " What is even more compelling for our purpose here is his second remark, "there are today only two groups among developing economies: those able to finance their growth through exports to the United States, and the rest, the legion of countries still plagued by Prebisch's infamous "trade gap", which they are forced to finance through debt. This is certainly not the coherence that we need between the trade and the financial systems, but it is the closest we have come to it" (Ricupero 2004: 9).

To claim that there are oppositional regional resistances and in some cases like the power structured WTO alliances to this may seem challenging. However it might be the only route out of the crisis of a dysfunctional global governance system and at the same time the only 'rational choice' of policy makers, politicians, and other societal actors. Thus I claim in the following that it is possible to identify four regional social compacts all based on different institutional structures and cultural orientations - from government monetary, fiscal and industrial policies to labor legislation, work ethic, trust and even the creation of new identities. Regionalism itself constitutes an element of an increasingly complex system of governance operating at a variety of levels in which questions about public goods, welfare, economic organisation and political participation are addressed (Phillips 2000: 395).

Despite the hegemony of neoliberal globalization there are at least three arguments in favor of regional projects. Considerable political and cultural diversity still exists among the different capitalisms. There are strong and apparently growing tendencies for top-down internationalizing and bottom-up transnationalizing forces to work in parallel or even converge over a policy that favours regional action. "The third source of regional action is the apparent or likely trend towards emphasizing identity and legitimacy in addition to, sometimes even before, efficiency." (Hveem

2000: 78-79). Regional social compacts may be defined according to common historical experiences and increased socio-cultural, political, or economic links that can lead to the development of organizations to manage the region's collective affairs. This not only implies the formal institutions or types of governance but rather the social institutions like political conflict resolution and welfare systems like corporatism, liberalism, and Confucianism (Stubbs and Underhill 1994: 232-233). The question is whether it is possible to identify distinctive forms of capitalism based on different relations between state, capital and labor, as political and economic rationalism alone cannot explain why for instance Asian regionalism has been, more often than not, articulated on cultural grounds rather than on grounds that are economic (as in North America) or political (as in Western Europe) (Ching 2000: 239).

1) The Anglo-Saxon political and economic liberalist compact which still is the dominant global model claims that coping with globalization - maximizing gains and minimizing risks - requires flexible domestic economic structures so that economic agents can adapt speedily and effectively to external pressures. Small rule-bound government upholding property and contract, within which framework private actors interact freely on the basis of a decentralized world price-mechanism, best serves national flexibility (Sally 2000: 238). Here the deregulated labor market is prevalent. This model is furthermore characterized by weak labor unions and lack of bargaining power. However, there are important signs that a new economic policy is undermining the previous compact. As noted above the result of the current policy will sooner or later lead to a radical change which will impact the global economy adversely.

2) The so-called Flexicurity model rests on negotiated social contracts between labor, employers and the state - social corporatism is a way to cushion and spread the costs of adjustment to global liberalisation. Extensive social security systems. Trust, long-term cooperation, and acceptance of collective objectives are based on the social, industrial and political citizenship rights. Together, these constitute a highly developed welfare state securing a high floor of provision for each citizen, as well as institutionalized rights of individuals and organized groups to participation and voice in the polity and at the workplace, making exit less necessary for expressing discontent. The model rests on politically negotiated social compacts in a bargained economy (Stallings and Streeck 1996: 91). Corporatist bargaining networks, while based on traditional class cleavages that may seem less relevant today, are contextually dependent institutions that remain viable and effective in the globalized economy. Those countries that are highly corporatist remain so due to the increasing returns of this type of interest mediation that has produced economic and social equality in highly internationalized economies (Minnich 2003: 24). What is interesting is the attempt by the Commission of the European Union to dissolve the Rhine-capitalist and the French etatist model or continental-Western European model and adopt the flexicurity model in the EU. Whether this will materialize remains to be seen.

3) The East and Southeast Asian Model, including China and Japan, has been characterized by a corporatist arrangement without labor, a substantial state involvement in economic affairs. This compact relies on a specific type of highly cohesive and disciplined civil society, structured by strong developmentalist institutions and orientations, which is easy to mobilize for collective action and protects society from the dysfunctions of possessive individualism, excessive competition, and noncooperative, particularistic rationality. By putting 'politics in command' the developmental state in East Asia played an important role in the capitalist growth process. The East

Asian late industrialization development model was based on the implementation of a specific understanding of political economy, whereby the state assumed a function in the guidance of the economy without disregarding the importance of the market. Government policy-making was thus organically tied to the production factors - land, labor and capital - in actively creating comparative advantages. Before the financial crisis neo-Listian theory enabled a clear explanation and provided the definition of the East Asian developmentalist state which had "a role different from that of the Keynesian welfare state in the already advanced countries. The Keynesian welfare state serves to restrain market rationality by measures to protect groups vulnerable to the consequences of market rationality. By contrast, the developmentalist state restrains market rationality in order to pursue a policy of industrialization *per se*" (Hoogvelt 1997: 206).

There are other important attempts to redress existing or new defensive regional social compacts. The following provides some examples of interesting similarities as well as important differences between the SARDC and MERCOSUR regions. The most important being that Southern Africa has spent numerous efforts and energy on reconciliation and the creation of stability and security in the aftermath of apartheid and wars. The experience of resistance has been heroic regardless of the conditionalities of the IFIs in the region.

4) The Latin American and African models today are characterized by a massive restructuring of capital-labor relations. The contraction of domestic markets, the dismantling of "uncompetitive" national industry, the growth of the informal economy, revised labor codes directed at making labor "flexible" and austerity programs have resulted in the informalization of the work force, mass under- and unemployment, a compression of real wages, and a transfer of income from labor to capital (Robinson 1999:49).

On paper MERCOSUR has a nuanced approach to the social dimension of its regionalism which maybe ascribed to the legacy of corporatism. In some ways it copies and is influenced by the EU model but falls far short of the achievements of Europe in the social sector. The Southern Cone region is the most advanced in terms of codifying a common policy labor rights. The 'Declaración Socio-Laboral del MERCOSUR' promulgated in 1998 is an important declaration of the rights of labour to organise, to non-discrimination, to be involved in social dialogue, etc. There is a monitoring mechanism involving trade union participation. The declaration reflects the continuing resilience of corporatist politics in the region. From 2000 the implementation of the supranational law on the mutual recognition of social security rights and the first joint inspections under the Health and Safety agreements took place. "The existence of the Socio-Economic Consultative Forum upon which trade unions sit is also testimony to this political tradition as well as to EU influence. As we shall see later however one of the questions about this high degree of union involvement is whether it represents the interests of the wider civil society and of non-organised groups" (Deacon 2001: 26).

Another example is found in the attempts to provide an adequate response to the financial crises in the late 1990s - which started with the devaluation of the Thai currency and later spread to Indonesia, South Korea, Russia and Brazil. The existing regional institutions like ASEAN, APEC and MERCOSUR either did not have any leverage or instruments to interfere and support the crisis ridden economies and in the case of MERCOSUR it even made the crisis worse since it spread to Argentina because Brazilian companies benefited from the devaluation of the Real and

were able to outcompete their Argentinean counterparts.

The first evidence of the emergence of monetary regionalism and a turning away from the IMF is to be found in East Asia. IMF's policies are rightly perceived in the region as an affront and problematical. In addition, in the summer of 1997 the IMF together with the US government impeded the Japanese initiative to create an Asian liquidity fund. The Asian Monetary Fund was explicitly to apply softer conditions than those of the IMF. The AMF's concept corresponded to being more of a 'lender of last resort' than the IMF. Essentially, the AMF idea was about providing unconditional loans to overcome liquidity crises (Heribert 2000: 20). Reflecting Asian resistance to Western-driven models the region – policy elite and wider community alike – perceived IMF policy throughout the late 1990s as humiliating and wrong. In the summer of 1997 the IMF (and the US government) impeded the Japanese initiative to create an Asian liquidity fund.

Despite its heterogeneity in terms of religion, ethnicity, and economic potential what we are seeing in East Asia is the emergence of a new regional compact that exhibits three overlapping and complex trends: 1. An interest in monetary regionalism arising from the desire that has emerged, since the financial crises of the late 1990s, to combat financial volatility. 2. An interest in bilateral trade initiatives within the context of the wider multilateral system, largely at the expense of the APEC style open regionalism of the 1990s. 3. The emergence of a discourse and resistance of a region beyond that of the sub-regions - Southeast and Northeast Asia - but more restricted than that of the Pacific as a mega region. The voice of East Asia that is emerging within the global political economy is a new factor (Heribert & Higgott 2003: 446).

The essential feature of the resistance model as featured by the AMF example is that it seeks to preserve through regionalism particular forms of national policy instruments or domestic social and economic arrangements that are difficult to sustain individually amidst globalisation (Mittelman 2000: 116-30). The resistance model also emphasises concern with non-economic or social values like distribution and social justice as the main driving force for regionalism. Although systemic forces - globalisation - do come into the picture, the response to them - resistance regionalism - is mediated through the domestic political economy. Legitimacy is usually an underlying concern for policymakers contemplating this form of regionalism (Hveem 2000: 75-8; Mittelman 2000:116-30). Governments, deriving political legitimacy from their capacity to undertake traditional social responsibilities, may be compelled to turn to regional collective action as the only viable option to maintain national social, economic coherence. The forward looking and inclusive character of the project is underlined through China's participation. China has been emphasizing that the relevance of the project is less important for China's own interest but for the sake of the creation of a region structure (Heribert 2000: 22).

In other parts of the world the picture might be a different one. The MERCOSUR, for instance, would have too limited foreign reserves to start a project of monetary regionalism based on the creation of a regional liquidity pool. Even if Chile would participate, the foreign reserves of Argentina, Brazil and Chile currently only total US-Dollar 74.9 billion, an amount insufficient for the creation of a regional liquidity fund that only uses ten or twenty per cent of all reserves. However, those economies with more limited reserves could still implement other elements of monetary regionalism, e.g. Udrop, regional banking supervision or the creation of a private regional liquidity fund. Also, macroeconomic co-ordination and joint monitoring would be

possible (Heribert 2000: 24). The regional integration project, while young, has the potential to influence domestic institutions with respect to homogeneity in a few ways. The statement of Las Leñas decrees that democratization and consolidation of democracy in the region are among the major goals of MERCOSUR. 'Reform fatigue' has for long been the major problem in Latin America. However, there are several indications which show that the future trajectory of politics in South America will "reflect a trend away from 'automatic pilot' market strategies towards more active policies of the types enshrined in the Asian 'developmental state' model and now advocated in Latin America by a growing number of governmental, societal and media voices. This condemnation of the 'stateless market' points to a (re-)recognition (in policy intellectual circles) of the institutional and social embeddedness of markets as well as the ways in which the functioning of domestic and global markets depends on the generation of political consent" (Phillips 2000: 388-389).

What these examples show is limited but ample evidence of an emerging regional resistance based on government and state initiative but to various degrees involving social actors as well. In the case of MERCOSUR there are recent initiatives growing out of the anti-globalization movement, the World Social Forum in Porto Alegre and last but not least the re-emergence of the left on the Latin American continent. The recent massive popular rejection of the North American - induced FTA creates new identities and a collective political will to resist and potentially create more cohesive social structures in a regional setting.

### **Challenges to global governance**

The big question is how new regional social compacts can encourage a reorientation that benefits the domestic economies and local markets and carry out long postponed measures of redistributive and socially oriented policies. Neoliberal globalization has systematically transferred power over patterns of resource allocation to largely unregulated financial markets, reflecting the belief that these markets are fundamentally efficient. As Bourdieu has mentioned neoliberal hegemony reflects "a programme of the methodical destruction of collectives" (1998).

Although there are signs of crisis in the world economy, especially with regard to the absorption of the new Eastern capitalist economies and as this paper has shown the current tendencies toward the creation of regional social compacts which reject US dominance it seems clear that also the theoretical approach to regional integration must change. In an ideal situation regional integration should prioritize its defensive potential against the problems associated with neoliberal deregulation and privatization, and create mechanisms for collective action. "In the context of current shifts in approaches to globalisation, the question is how some sort of reconstituted regionalism will relate to broader 'global' trends" (Phillips 2000: 385). Regionalism will have to offer enhanced protection against financial and social crises, whereas trade liberalisation does not deliver the promised benefits (Heribert 2000).

Both Latin American and East Asian responses to the present crisis of neoliberal globalization suggest a move towards defensive regional organizations that provide some level of regulation and a more cohesive type of social compact. This is very much a resemblance of the strategies of the European Union – although it is in paralyze at the moment of writing it has been rather successful

in promoting a contract both horizontally between new member states and vertically through social integrative strategies. However, even the EU must comply to the demands of neoliberal globalization as reflected in the proposal about liberalization of the service sector and the confrontations and popular mobilization against the new Constitution. As Phillips mentions and as envisaged in the examples above, “regionalism is inherently a project driven by states and a significant means by which some measure of policy latitude threatened by globalisation might be salvaged, there is a persuasive argument to be made that the domestic impact of recent global trends will necessarily involve a redefinition of the bases of regionalism in various parts of the world. In addition, if the central foundations on which contemporary regional arrangements are constructed are challenged, modified or torn down, then it seems reasonable to expect, supported by recent evidence, that the nature of the resulting regional projects will undergo a consequent and related process of change” (2000: 384).

The regional agenda is vital not only for development in Asia, Africa, Latin American and Caribbean countries, but also for the consolidation of a common regional position in negotiations on new international rules aimed at creating a more balanced form of globalization. Although this issue has fallen beyond the scope of this paper trade negotiations in Seattle and Cancun have shown the strength of collective action on behalf of developing countries. Without shared economic interests, the countries will find it harder to present a united front in a globalized world. (ECLAC 2005: 22)

Let me end this expose on regional social compacts by quoting Polanyi (Levitt 2006:175).<sup>11</sup> He envisaged a regionalized world characterized by the peaceful co-existence of different economic and social systems linked by a negotiated and managed trade world order which would subordinate economics to social objectives; his vision of the co-existence of regional economies with different and diverse economic institutions linked by flows of trade, knowledge and people should be revitalized. Serious crises in excessively open and export dependent economies are likely to redirect attention to domestic markets, not on a national but on a larger regional scale. In Latin America, a new generation of leftist political leaders is responding to a profound disillusion with neoliberal policies. Similar currents are stirring in Africa and especially East Asia (although with a different political and ideological flavour). The common struggle against entrenchment of property rights in the WTO has forged political and economic links between major regions of the global south. Given the severe imbalance of power between the developed and the developing world, it is difficult to imagine that a multilateral financial and economic order would not be biased to favour the rich and the mighty. Regional formations would have to furnish themselves with financial institutions to complement the management of external trade and investment.

Payne’s illustration of the diversity of forms of regionalist governance - multilevel governance in the EU, ‘hub-and-spoke governance’ in North America and what he calls ‘pre-governance’ in Asia (which might, incidentally, apply usefully also to South America) - highlights that simplistic conceptions of a single relationship between something called ‘regionalism’ and something called ‘globalism’ are analytically and empirically problematic (Payne cf Phillips 2000: 395). Still it is imperative to acknowledge that the term global or regional governance for that matter is heavily overloaded. As Smouts (1998: 87-88) reminds us ‘we cannot speak of global governance.

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<sup>11</sup> This and the following builds heavily on Polanyi’s daughter’s presentation in RIPE

International regulation exists among a small number of states, with private and elitist companies sharing the same communication code (that of free trade and the Western conception of human rights.' If this is true the correct term would probably more likely be 'minilateralism' than a global or regional construction. The term itself is based on an eirenic representation of social life. It disregards the fight to the death, the phenomena of outright domination, and the problems that arise from the ungovernability of whole sections of international society. In fact, it is subject to all the reproaches levelled at the theories of public choice on which it is basically founded.

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