Impact of Globalisation on Sovereignty of State: Economic Aspect

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Introduction

The Montevideo Convention on the Rights and Duties of the State 1933, in its Article 1 states that necessary prerequisites of a state. Article 1 of the Convention reads as, “The state as a person of international law should possess the following qualifications: a) a permanent population; b) a defined territory; c) government; d) capacity to enter into relations with the other states. In this article the fourth criteria for the formation that is capacity to enter into relations with other states means that the state has the power to maintain external affairs with other states. This is an important aspect of state sovereignty. State sovereignty is to be both internal and external. Internal in the sense that it has the right and power to maintain its own laws and regulations within the nations and external sovereignty gives the state the power to maintain relations with other states or freedom from any external pressure. This has been the traditional notion of sovereignty that is an essential element of statehood.

This concept of state sovereignty has undergone changes in the contemporary world with the advent of the Globalisation process.

The term globalization comes from English, as base of the word “globalization” which refers to the emerging of an international network, belonging to an economical and social system. Globalization is usually used as a handy form to describe the spread of communication production and connection technologies throughout the world. The processes of globalisation reveals that we are facing a multifaceted phenomenon containing economic, social, political, cultural, religious and legal dimensions, all interlinked in complex fashion.

This has led to changing in the economic, political, cultural and social structure of the states. In this paper the economic impact of the globalisation on the sovereignty of the states are being discussed. The main focus is on the increase in trade and tariff across countries, increase in foreign direct investments, growth of the international organisations, regulation of the intellectual property rights by the international instruments and the role of state in framing its plans and policies adhering to the various international institutions.

Economic Impact of Globalisation

Globalisation as a process has influenced and has bought about drastic changes in the economies of the country and the role of the states in regulating their economies in order to promote growth and development.

The interrelationships of markets, finance, goods and services, and the networks created by transnational corporations are the most important elements of economic globalization.

(a) Increase in trade, inflow of capital and foreign direct investments and the growth of digital currency

The capitalist system is been envisioned by most of the states in the world community.

3. Ibid. Pg no. 139.
There has been an increase in the rise of cross border trade and services across the nation. The states are continuously trying to enter into treaties mainly bilateral investment treaties and multilateral investment treaties. These treaties enable states to make favourable conditions for trade and investment related aspects. The trade basically import export regulations and tariffs are being relaxed, special economic zones and industrial corridors are being created so as to gain exclusive development and growth in infrastructure, roads, and rails etc. The process of globalisation has also led to the increase of the role of the global corporate and entry of private players in investment as government across the world are entering into public private partnership model in almost all the sectors like health, education, infrastructure in order to bring out and efficient and effective result. Moreover governments are relying on this public private partnership models as they lack all the resources and there are financial constrains so as to achieve a overall growth and development.

The states also need to keep in mind the fact that they need to maintain a balance between the concept the “globalised localism” and the “localised globalism” as has been mention by B.S Santos in one his article:\(^5\):

\[\text{“Globalised localism is the process by which a particular phenomenon is successfully globalised like the American fast food, or pop music etc.”} \]

\[\text{“Localised Globalism is the process by which there is specific impact on local conditions produced by transnational practices and global corporate.”} \]

The balance that the state is to create is that such opening up of economies lead to the coming up of corporate giants in order to exploit the local resources. So the states need to frame rules and regulations in such a way that there are not adverse effects of such “localised globalism” on the local or native people of the nation.

Another important aspect of globalisation is that it has led to the revolution in the information technology, with the advent of internet and smart phones there has been a growth in the way business is being conducted. In the contemporary world every commodity starting from the bare necessary to the luxurious can be availed in just a click of a mouse. Online platforms like Amazon, Flip cart, Eay Bay, Myntra are a few to name in that provide platform for global business. The rise in cross border internet traffic is a result of such online platforms that provides goods and services in a fair competitive price. This has also resulted in the digitalisation of the currency that is it has lead to a change in the mode of payment from the traditional cash payment system to a digital payment system. Online payment applications like the Paytm, Paypal are proving worthy in the way forward to formation of a cashless economy. This change in the mode of payment to a cashless transactions or online payments has resulted in the change in the policy and economic decisions of the nations. The policy making of the states has been greatly influenced by the economic market as states are being in a compulsive position to update or change their existing legal framework in order to regulate these modes of payment or the new economic regulations. These updating of the legal framework is necessary as new difficulties and crimes like internet fraud, cheating, misrepresentation are arising out of such changes in the economic market. This way globalisation has changed the way the states traditionally used to control their market or economic regulations.

**(b) Formation of a single uniform global currency**

Currency plays an important role in the trade of goods and services. Currency acts as an instrument of exchange that facilitates the trade. In international business the role of currency is most important as there are various factors like currency exchange, exchanged

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rates etc. The states have different currencies prevalent for transaction purposes; however when it comes to international trade these existences of different currencies creates hurdles for the traders and the buyers simultaneously. Some of the common problems are the currency exchange rates that vary from states to states, risk of misalignment of currencies etc. In lieu of this the notion of a single global currency arises in order to remove all the difficulties that arise from having different currency. The existence of a single currency helps in encouraging in more trade across borders thus boosting the economies. One such example is the prevalent of the Euro that is being used by all the states in the European Union. The prevalent of such single global currency also helps in strengthening of the value of that particular currency.

However such uniform currency would create problems for the states in regulating and controlling the currencies. Moreover all the states are not in an uniform level of development, every state has its own economic, historical, political and socio cultural background. In the light of this the plans and policies differ from state to state as they are oriented towards achieving different goals. The economically poor countries may not be able to cope up with the plans and polices of the developed states. Moreover the transition to go for a single currency would mean a change in the currency which will be an additional economic burden on the states to implement such new changes for effective regulation of the currency.

(c) Emergence of the International organisation

The states has witnessed the development of many international organisations over the years that try to regulate trade related aspects, reduce poverty, foster economic growth, provide financial assistance to the member countries. The major financial institutions are the World Bank, International Monetary Fund and the World Trade Organisation. These financial institutions aims at achieving different objectives ranging from regulating trade and tariffs, promote economic growth, provide financial assistance or loan, and promote international trade and investments.

The developing and the under developed states in order to attain economic growth and development are opening up their economies in order to integrate themselves with the global countries and are also forced to such actions due to the prevalent social and cultural problems ranging from poverty to unemployment and also lack of financial power to foster rapid development on its own. In doing so to combat all these prevalent issues they are compelled to open up their economies to attract foreign investments, relax the trade barriers to get optimum utilisation of its natural resources. These countries also take aid and loans from the financial institutions like the World Bank and the International Monetary Fund however at certain conditions so as to meet the immediate needs of reconstruction and restructuring their economies. The loans that are being taken by the states are at certain conditions which make the government to change its policy decisions ranging from making adjustments in their spending on welfare programmes, reducing of public expenditure and also sometimes devaluation of their currencies.

More over the member states of such organisation like the World Trade Organisation which aims to promote trade among the member states freely and smoothly. So in order to adhere to such free and smooth trading among the states there is a need to relax the trade barriers and are also required to create a trade and investment friendly environment in the economy. This results in restructuring of the economic policies of the government. Thus in doing so it results in erosion or diminishing of the economic sovereignty over its economic activities that were being enjoyed by the states earlier to such advent of International organisations.
(d) Protection of the Intellectual property rights

Intellectual property rights are the rights that one attains by virtue of their intellect. These rights vary from copyright, trademarks, patents, industrial designs, and geographical indicators. Each and every nation recognises such rights and has their own legal framework in order to protect and regulate the use of such rights. The intellectual property rights, their use and production are also protected and regulated by international instruments like the WIPO (The World Intellectual Property Organisation), Berne Convention, TRIPS (Trade Related Aspects To Property Laws). These instruments set down the minimum standards that each state must maintain in order to protect and regulate the use of the intellectual property rights by each member nations. That way these international instruments have an indirect effect or control on the sovereignty of the state to regulate the intellectual property rights and maintain such international standards and also to make their domestic laws in consonance of the international instruments.

(e) Tourism and medical tourism

The tourism sector has undergone a lot of changes in the world. The states are trying to benefit themselves by promoting their tourism sector and have also relaxed the formalities for travelling across nations for the tour purposes. Provisions like visa on arrival are being made in order to promote the tourism sector. These facilities have resulted in the growing number of tourists recorded by each and every country. The states are gaining significant revenue in from such sectors. However in order to maintain its tourists attractive notion states are to make plans and policies for such regulation and proper maintenance and security in the tourist hotspots. Thus the states are to relax the long formalities and regulate it in such a way that it doesn’t create hurdles for the tourists. Thus the states have provided with options of visa and arrival provisions for certain nationals of other states.

Also there has been a development of the concept of medical tourism. “Medical tourism” refers to travelling to another country for medical care. There has been significant development in this sector as people are travelling worldwide for cheap medical treatment that is available in the countries like India. Thus, the states have to maintain a balance between promotions of the tourism departments and also to check any unworthy activities that might pose threat to the security of the states.

Conclusions

Globalisation has led to the integration of the domestic economies to the global economies. The reason for such integration of the economies are many ranging from a need felt by the states to rapid growth and development by having infrastructure development, promotion of trade and services and promoting foreign direct investments. The states have relaxed the trade barriers, created special economic zones, industrial corridors that led to the entry of the global corporate in the national economies. This has led to the limited control and change in the plans and policies of the state towards economic regulations. The other aspects of globalisation like the growth of a uniform currency system for example the use of Euro in the European Union, growth of international organisations, the regulation of the intellectual property rights by the international instruments, development of digital economies and growth in tourism sector has led to certain constrains to the state in their way of regulating such areas or sector.

Thus globalisation has changed the way states are to frame, regulate and implement their national policies. This does not indicate that the states are becoming weak; neither the sovereignty of the state is withering away, it only suggests that the role of the state has become multi dimensional as it has to look after the international standards, regulations and the needs of the global community while catering plans and policies for their national economies.