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# Globalization: The Relationship Between the State and the Economy

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Globalization: The Relationship Between the State and the Economy

by

Michael Mena

A thesis submitted in partial fulfillment  
of the requirements for the degree of  
Master of Arts  
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College of Arts and Sciences  
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# Globalization: The Relationship Between the State and the Economy

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## ABSTRACT

Many people agree that we live in a changing world. It is a world transformed by globalization. I propose that changes in state policies have led to a change from an international economy to a global economy, thereby contributing to the emergence of contemporary globalization. Changes in state power/authority and policies have affected the overall economy. These changes have caused the economy to transform from a national economy to a global economy.

I test the hypothesis through a case study of Guatemala's Economy. The time period for this study is from 1982 to 2002. The economy of Guatemala is comprised of three key sectors. These sectors include Agriculture, Industry, and Services. I study the relationship the state has with these key sectors and also the relationship these three sectors have on the state.

I review the current status of national economies to determine if they have changed and thereby been absorbed by a global economy. What have been the characteristics of national economies? Do these characteristics still exist? If national economies continue to have the same characteristics they have developed since the 18th century then, what is meant by a global economy? Does it exist? What is the difference between an international economy and a global economy? How do political economists and economists view national economies and the global economy? Are the traditional



variables (such as GNP, GDP, savings rate and others) used to measure changes in national economies still applicable? Has the relationship between the economy and the state changed or remained unchanged since the development of that relationship since the 18th century?

Among these questions, the central question I plan to address is: have national economies changed and become subsumed under a global economy?

## Chapter One: Introduction

*“We are caught in a terrible dilemma. We have reached a point in history where we must rethink the very nature of and the meaning of human progress; yet the vision and decisions that emerged some fifty years ago catalyzed events that have transformed the governance processes of societies everywhere such that the necessary changes in thought and structure seem very difficult to achieve.”*

--David Korten <sup>1</sup>

Many people agree that we live in a changing world. It is a world transformed by globalization. Smith, Solinger and Topik<sup>2</sup> cite, “The end of the twentieth century is a time of tumultuous change: not only is our world becoming increasingly interdependent, but the nature of fundamental relationships between its parts are changing –and at an increasing pace. The unprecedented volume and velocity of international flows of trade, investment, information, cultural exchanges, and human migrations are creating a new, more tightly integrated, world and one that seems to be in throes of some fundamental restructuring” (p. 1). In addition, they believe many would agree that “globalization along with the end of the Cold War has radically changed the basic ‘rules of the game’ for a variety of key actors, particularly states” (p. 1). We once again find ourselves questioning the relevance of the state in the overall picture. This thesis will advance

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<sup>1</sup> See Jerry Mander (Editor), and Edward Goldsmith (Editor), 1997. The Case Against the Global Economy: And For a Turn Toward the Local. This little quotation is from David Korten’s “The Failures of Bretton Woods,” and is found on page 29-30. David Korten is one out of 43 contributors to this book.

<sup>2</sup> See David A. Smith, Dorothy J. Solinger, and Steven C. Topik, 2002. States and Sovereignty in the Global Economy. New York, Routledge.

knowledge about globalization by assessing what if any impact it has had on the relationship between the state and the national economy.

In this chapter, I propose that changes in state policies have led to a change from an international economy to a global economy, thereby contributing to the emergence of contemporary globalization. Before explaining this hypothesis, I first establish operating definitions for globalization (section 1.1), the state (section 1.2), the national economy, the international economy, and the global economy (section 1.3). I conclude the chapter with a description of the research design (section 1.4), and a brief outline of the chapters (section 1.5).

### ***1.1 What is Globalization?***

To fully understand what globalization means is not the central purpose of this thesis. Grasping some of its ideas, however, will be important in understanding the concepts developed in this thesis. Competing conceptions of globalization exist throughout the literature. Some skeptics doubt it is an actual phenomenon worthy of debate while those that do acknowledge the concept of globalization argue over its nature, meanings and causes. Since the beginning of the last decade, there has been an enormous spread of literature on globalization. The literature on globalization ultimately fails to reach agreement on a precise definition of the term. Similar sentiments were shared by Held, McGrew, Goldblatt and Perraton in their introduction to the 1999 *Global Transformations*<sup>3</sup> book. In their introduction, they acknowledged this concern when observing that “[d]espite a vast and expanding literature there is, somewhat surprisingly, no cogent theory of globalization nor even a systematic analysis of its primary features”

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<sup>3</sup> See David Held, Anthony McGrew, David Goldblatt and Jonathan Perraton, 1999. *Global Transformations*. Stanford University Press: Stanford, California.

(p. 1). Some say this is a cause for concern and view it as just another ploy to argue that the concept of globalization does not exist. Others state that this lack of precise meaning is due in part to the richer and specialized fields/disciplines that now exist in the world.

Since the literature does not present a precise definition for globalization, I have had to establish one based on my understanding of various ways in which globalization is conceptualized in the literature. No one attempt to define its meaning seemed sufficient. After reviewing the contributions of Albrow, Clark, Held *et al.*, Higgott and Reich, Kearney, Panic, Scholte, and Tomlinson, I have concluded that each has offered a different meaning for globalization and some of these meanings were vague. In this regard, common agreement has not yet been established. The concept's future meaning is uncertain and infinite. Given this, I take globalization to be a multi-dimensional process characterized by significant and ongoing changes in economics and politics. Globalization is both cause and effect of these changes.

### ***1.2 What is the State?***

Research on the state and its role has always been a central part in the study of politics and in the study of economics. Similar to the literature on globalization, the literature on the state is extremely vast. The question at hand is how the role of the state has changed since the beginning of the twentieth century and if so, is the change “new” or significant for the concept of globalization.

In the context of this thesis, the changing role of the state and its power over the economy is important to address. Furthermore, the central question is: what role does the state play, relative to other actors, in determining the status of national/international/global economy? Many believe that contemporary globalization

intends a reassessing the role of non-state actors and informal networks or institutions as power players in global politics. I acknowledge the importance of non-state actors and informal institutions in influencing economic policies. However, there is not enough research on the role of non-state actors to conclude that they, rather than states, are the main unit of analysis. Therefore, the state's power is a central concern in this thesis.

To fully understand "*what is the state*" is not the central purpose of this thesis. However, a working definition is necessary because the state is the independent variable in my hypothesis. For the time being and for the purpose of this section, I rely on a combination of Held *et al.* and Clark, both of whom consider the state to still be a major actor in world politics, to establish a definition of the state in light of globalization. In this regard, my working definition of the state is of a political marketplace where individuals and competing groups can process and settle their interests and concerns. This marketplace includes the formal institutions and structures used by a country's national government and the authority, legitimacy, and sovereignty traditionally associated with it as the governing unit.

### ***1.3 What is a National Economy? What is an International Economy? What is a Global Economy?***

This section attempts to shed some light on the existing literature on what is a national economy, what is an international economy, and what is a global economy. Again, what entails a national economy, an international economy, and a global economy differs and is vague throughout the literature. Preliminary findings on the literature that addresses the national/international/global economy suggest that the literature has enlisted three distinct avenues: (a) those that believe a global economy does exist, (b)



Table 1: Definition of National Economy and Global Economy

<b>National Economy</b>	Prices, Factors of Production, and of Consumption are determined by variables primarily located within the geographic and political boundaries of the state.
<b>Global Economy</b>	Prices, Factors of Production, and of Consumption are determined by variables that are not associated with any geographic or political boundaries.

Along these same lines, it is fair to say that it is not easy or even straightforward to define *what is a national economy* and *what is a global economy* without lending to some controversy. Conversely, I believe when a national economy finds itself in a position where its prices, factors of production and consumption of production are being determined (either positive or negative) by flows of goods, services, investment, capital, trade, and people then it is safe to say that economy becomes global.

#### ***1.4 Research Design***

##### *Research Question(s):*

I would like to review the current status of national economies to determine if they have changed and thereby been absorbed by a global economy. What have been the characteristics of national economies? Do these characteristics still exist? If national economies continue to have the same characteristics they have developed since the 18th century then, what is meant by a global economy? Does it exist? What is the difference between an international economy and a global economy? How do political economists and economists view national economies and the global economy? Are the traditional variables (such as GNP, GDP, savings rate and others) used to measure changes in national economies still applicable? Has the relationship between the economy and the state changed or remained unchanged since the development of that relationship since the 18th century?

Among these questions, the central question I plan to address is: have national economies changed and become subsumed under a global economy?

*Hypothesis:*

I propose that changes in state policies have led to a change from an international economy to a global economy, thereby contributing to the emergence of contemporary globalization. Changes in state power/authority and policies have affected the overall economy. These changes have caused the economy to transform from a national economy to a global economy.

*Method:*

Latin America is made up of twenty six (26) countries. For the purpose of this thesis, I have chosen Guatemala as my study area and will test the hypothesis through a case study of Guatemala's economy. The time period for this study will be from 1982 to 2002. The economy of Guatemala is comprised of three key sectors. These sectors include Agriculture, Industry, and Services. I will study the relationship the state has with these key sectors and also the relationship these three sectors have on the state.

Guatemala was once a colony of Spain and gained its independence in 1821. According to the CIA's World Factbook, in late 20<sup>th</sup> century, Guatemala "experienced a variety of military and civilian governments as well as a 36-year guerrilla war."<sup>5</sup> The country then witnessed in 1996 a peace agreement "ending the conflict, which had led to the death of more than 100,000 people and had created some 1 million refugees."<sup>6</sup> Guatemala is located in Central America and is bordered by Mexico, El Salvador, Honduras and Belize.

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<sup>5</sup> See <http://www.cia.gov/cia/publications/factbook/geos/gt.html> (accessed on February 3, 2004).

<sup>6</sup> See footnote 4.



Guatemala borders my native country of Belize and for the past seven years their relationship has been less than amicable. I have spent some years living in Guatemala and most of my life living in Belize. I am hoping such an experience can be useful in the final analysis.

I have decided to use *National Economy* as my dependent variable and *State Economic Policies* as my independent variable. In other words, national economy will be my response variable and state economic policies will be my predictor variable. Both variables will provide a linear relationship. The question at hand, however, involves the type or form of linear relationship. Will there be a positive or a negative (inverse) relationship?

The claim I want to make under this section is that I understand clearly that only selecting one case study will bring limited results and not be sufficient for testing the present hypothesis. However, the purpose of pursuing this case study is in order to test out the issues and further develop the method whereby the hypothesis can be tested. I hope to create a framework that others can review or modify for their own future studies.

*Expected Results:*

In this section, I expect to refine the issues and methods whereby the hypothesis can be ultimately tested.

***1.5 Chapter Outline:***

In chapter one, I offer a justification for the proposed hypothesis, i.e., that changes in state policies have led to a change from an international economy to a global economy, thereby contributing to the emergence of contemporary globalization. This chapter includes definitions of the meaning of globalization, the state, and the

national/international/global economies. It also presents the research method adopted in the thesis. It includes the following components:

- Introduction and Statement of Topic
- Relevance of Topic
- Definitions of Globalization, the State, the National Economy, the International Economy, and the Global Economy
- Hypothesis Statement
- Chapter Outline

In chapter two, I offer a literature review of the available scholarly literature related to globalization, the state and the national/international/global economy. In order for me to eventually provide my own analysis, it is necessary that I study carefully the available literature.

Preliminary findings suggest that competing conceptions of globalization exist throughout the literature. Some skeptics doubt it is an actual phenomenon worthy of debate while those that do acknowledge the concept of globalization argue over its nature, meanings and causes. The literature on the state suggests that one's view of the state depends on either one of the following three schools of thought. The first school defines the state as being *the* main and primary actor on all levels. The second school focuses on the diminishing value of the state as an important unit of analysis. Finally, the third school views the state as being impotent and no longer a significant actor. The national/global literature, so far, has provided three avenues: (a) those that believe a global economy does exist, (b) those that believe a global economy does not exist, and (c) those that believe a global economy is not that obvious.

In chapter three, I present the case study to test whether there is a positive or a negative (inverse) relationship between *national economy* and *state economic policies*. I will test the hypothesis through a case study of Guatemala's Economy. The time period

for this study will be from 1982 to 2002. The economy of Guatemala is comprised of three key sectors. These sectors include Agriculture, Industry, and Services. I will study the relationship the state has with these key sectors and also the relationship these three sectors have on the state.

In chapter four, I summarize the case study findings, revisit the study objectives and questions, and identify future research on the topic. Also, I provide a review of findings to National/Global Economy literature. Finally, I identify future research that must be completed to test the hypothesis.

## Chapter Two: A Review of Literature on Globalization, the State and the Economy

*“...there is apparent contraction between the two images of globalization to which appeal is simultaneously being made. On the one hand, it is argued that what is distinctive about globalization is that it incorporates its ‘agents,’ so much so that they lose their separate identities. At the same time, it is maintained that it constrains their behavior as independent actors. There is tension between these claims. Globalization might cause national economies to disappear, or it might cause them to behave in uniform ways, but one surely cannot argue for both propositions at the same time.”*

-- Ian Clark<sup>7</sup>

### ***Plan***

The purpose of the literature review is to gather the available scholarly literature related to globalization, the state and the national/international/global economy. In order for me to eventually provide my own analysis of what constitutes a global economy and what constitutes a national economy, it is necessary that I study carefully the available literature. After reviewing the existing literature, I plan to then create a table that employs a working definition of *what is a national economy* and *what is a global economy*.

This literature review is composed of three parts. The first part deals with the current literature on globalization. The second part deals with a general introduction to the topic of the state. The third part deals with the global/national economy literature.

The books chosen for the first part and the second part of this literature review were all part of the literature I have been exposed to in previous courses. The books,

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<sup>7</sup> See page 104 in Ian Clark, 1999. Globalization and International Relations Theory. Oxford University Press.

however, chosen for the third part required a little ingenuity. There are many methods used in research to gather literature worthy of the topic. The approach used here, suggested by my thesis adviser, is unique and requires the help of those who practice within the field of political science and economics. Professors who have been part of my graduate life were asked (whatever comes to mind) to come up with the two best works on each, that help to define what is a national economy and what is a global economy. They each provided the two best works on global economy and the two best works on national economies that they felt would be helpful for this topic.

Preliminary findings on the global/national economy literature suggest that the literature has provided three distinct avenues: (a) those that believe a global economy does exist, (b) those that believe a global economy does not exist, and (c) those that believe a global economy is not that obvious.

***Research Question(s) Revisited:***

I would like to review the current status of national economies to determine if they have changed and thereby been absorbed by a global economy. What have been the characteristics of national economies? Do these characteristics still exist? If national economies continue to have the same characteristics they have developed since the 18th century then, what is meant by a global economy? Does it exist? What is the difference between an international economy and a global economy? How do political economists and economists view national economies and the global economy? Are the traditional variables (such as GNP, GDP, savings rate and others) used to measure changes in national economies still applicable? Has the relationship between the economy and the

state changed or remained unchanged since the development of that relationship since the 18th century?

Among these questions, the central question I plan to address is: have national economies changed and become subsumed under a global economy? With this in mind, the hypothesis, I address, propose that changes in state policies have led to a change from an international economy to a global economy, thereby contributing to the emergence of contemporary globalization. A change in state power/authority has affected the overall economy. This shift has caused the economy to transform from a national economy to a global economy.

### ***Globalization Literature***

The purpose of this section is to provide a general introduction to the topic of globalization and assess the works of leading and prominent scholars in the field such as Albrow, Clark, Held *et al.*, Higgott and Reich, Kearney, Panic, Scholte, and Tomlinson in hope to attain from each a precise definition of globalization. After reviewing the existing literature, I plan to create a table that lists the authors and their definitions of globalization.

### ***Globalization Debate***

As mentioned earlier, competing conceptions of globalization exist throughout the literature and consequently leads to extreme disagreement in the literature on how globalization is adequately conceptualized. Similarly, then, we see a pattern developing and can cite that there are those that doubt it is an actual phenomenon worthy of debate and then there are those that do acknowledge the concept of globalization and, in return, argue over its nature, meanings and causes. Held *et al* takes the argument even further

and wants to know how globalization is best construed and perceived. Held and company provides an extensive summary of the globalization debate in hope to frame several distinctive positions on globalization. This debate then is useful in conceptualizing globalization. The globalization debate enlists three positions. These positions are the *hyperglobalizers*, the *sceptics*, and the *transformationalists*.

For the hyperglobalist, globalization does exist and is the main reason and cause for the changes the world is experiencing to date. Hyperglobalizers contend that “economic globalization is bringing about a ‘denationalization of economies’ through the establishment of transnational networks of production, trade, and finance” (Held *et al.*, 1999, p. 3). Globalization is slowly aiding in diminishing the role and character of the nation-state as the main actor in the economic and political stage. Consequently, the main claim of the hyperglobalist is the notion that there is an ‘end to the sovereign nation-state’ (Held *et al.*, 1999).

The sceptics, on the other hand, contend that globalization does not exist. Globalization, consequently, has not influenced or weakened the nation-state. The nation-state remains a powerful institution and is still the main actor in the economic and political realm. Among the sceptics, ‘global governance’ or ‘economic internationalization’ is in no way undermining the sovereignty of the state (Krasner, 1993). On this note, Held and company proclaim that proponents of this view acknowledge that while states are certainly interacting more than in the past, they are, however, not entirely participating in a global system instead these states are solely acting in their own interest (Held *et al.*, 1999).

The transformationalists acquire many of the arguments of both the hyperglobalist and the sceptics. They, however, do not accept the hyperglobalist belief that there is an 'end to the sovereign nation-state' and they also do not accept the sceptics' belief that 'nothing has changed' (Held *et al.*, 1999). Held and company cite, "At the core of the transformationalist case is the belief that contemporary globalization is reconstituting or 're-engineering' the power, functions and authority of national governments" (p. 8). Among their contention, globalization does exist and influences all areas of the world. Globalization, however, does not influence all these areas in a uniform manner.

#### *Globalization Literature In-Review*

Since the beginning of the last decade, there has been an enormous spread of literature on globalization. As has been seen, competing conceptions of globalization exist throughout the literature and consequently leads to extreme disagreement in the literature on how globalization is adequately conceptualized and perceived. Competing conceptions of what globalization means, however, suggest to me that globalization does exist.

After reviewing the works of Albrow, Clark, Held *et al.*, Higgott and Reich, Kearney, Panic, Scholte, and Tomlinson, I decided to create a table that lists the authors and their definitions of globalization. Table 2, consequently, portrays a summary of the definitions of globalization found in the literature. This will help create a framework that will be useful later on in testing whether or not a global economy exists.



Table 2: How Globalization is defined in the Literature

<b>Author(s)</b>	<b>Globalization as defined in the Literature</b>
<b>Albrow</b>	<p>1-- Making or being made global:            (a) in individual instances</p> <ul style="list-style-type: none"> <li>• by the active dissemination of practices, values, technology and other human products throughout the globe</li> <li>• when global practices and so on exercise an increasing influence over people's lives</li> <li>• when the globe serves as a focus for, or a premise in shaping, human activities</li> <li>• in the incremental change occasioned by the interaction of any such instances;</li> </ul> <p>(b) seen as the generality of such instances;            (c) such instances being viewed abstractly.</p> <p>2--A process of making or being made global in any or all of these senses in (1).            3--The historical transformation constituted by the sum of particular forms and instances of (1). (p. 88)</p>
<b>Tomlinson</b>	<p>refers to the rapidly developing and ever-densening network of interconnections and interdependences that characterize modern social life (p. 2).</p>
<b>Held et al.</b>	<p>a process (or set of processes) which embodies a transformation in the spatial organization of social relations and transactions... (p. 16)</p>
<b>Scholte</b>	<p>refers to a far-reaching change in the nature of social space...The proliferation and spread of supraterritorial –or what we can alternatively term ‘transworld’ or ‘transborder’ –connections brings an end to what can be called ‘territorialism’, that is, a situation where social geography is entirely territorial (p. 46).</p>
<b>Panic</b>	<p>a process of continuous change--driven by the interaction of economic integration and cultural harmonization--that will eventually engulf every single country in the world (p. 7).</p>
<b>Clark</b>	<p>is not itself a substantive activity or area of human behavior, either material or mental. Instead, it is a quality, condition, or form that such behavior or activity might take (p. 6).</p>
<b>Kearney</b>	<p>Refers to social, economic, cultural, and demographic processes that take place within nations but also transcend them, such that attention limited to local processes, identities, and units of analysis yields incomplete understanding of the local (p. 548).</p>
<b>Higgott and Reich</b>	<p>refers to: (i) the emergence of a set of sequences and processes that are unhindered by territorial or jurisdictional barriers and that indeed enhance the spread of trans-border practices in economic, political, cultural and social domains, (ii) as a discourse of political knowledge offering views of how to make the post-modern world manageable (p. 5).</p>
<b>Economist's Perspective</b>	<p>refers to a model of fully internationally integrated markets and defined as those meeting two conditions; first, the ease of free movement of goods, services, labor and capital (a single market in inputs and outputs) and Second, the notion of full national treatment for foreign investors (the idea that economically there would be no foreigners).</p>

The central claim continues to be: to fully understand what globalization means is not the central purpose of this thesis. Grasping some of its ideas, however, will be important in understanding the concepts developed in this thesis. With this in my mind, I will only focus in depth on the works by Scholte, Tomlinson, Albrow, and Panic.

Globalization, as Scholte<sup>8</sup> believes, is “too important to be handled casually and opportunistically” (p. Xiii). He suggests before getting into a discussion of trying to define the term globalization, it is necessary to elaborate on the several factors that led to the birth of globalization. There are four factors that have transpired globalization. These factors are (1) the rise of rationalist knowledge as the main framework; (2) the ups and downs inherent in the advancement of capitalism; (3) technological advancements in communications; and (4) improving regulatory frameworks (Scholte, 2000, p. 90). According to Scholte, these four factors aid in analyzing the apparent agent-structure debate. Factors (1) and (2) represent the structure side of the debate, while factors (3) and (4) represent the view of the agent.

Scholte, in Globalization: A Critical Introduction, explores the term in depth and cites five general conceptions of globalization. He sees globalization as (a) *internationalization*; (b) *liberalization*; (c) *universalization*; (d) *westernization*; and (e) *detrterritorialization*. Scholte argues, “The first four definitions are largely redundant and only the last notion gives globalization a new and distinctive meaning” (p. 3). He sees *detrterritorialization* as the best fit concept to define globalization. Conversely, *detrterritorialization*, or as Scholte calls it ‘a spread of supraterritoriality,’ best interprets globalization in relation to social space. Social space is no longer dependent on territorial places, territorial distances, and territorial borders (Scholte, 2000).

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<sup>8</sup> See Jan Aart Scholte, 2000. Globalization: A Critical Introduction. St. Martin’s Press: New York, N.Y.

Globalization according to Scholte, “refers to a far-reaching change in the nature of social space...The proliferation and spread of supraterritorial –or what we can alternatively term ‘transworld’ or ‘transborder’ –connections brings an end to what can be called ‘territorialism’, that is, a situation where social geography is entirely territorial” (p. 46). In short, he believes territory still matters, but people are now less constrained by space in the social relationships they construct than they were in the past.

In Globalization and Culture, Tomlinson<sup>9</sup> explores the type of relationship globalization has with culture and questions “why culture matters for globalization and why globalization matters for culture” (p. 22, 27). He believes globalization impairs the way one interprets or analyses culture. This is a crucial point in the global-culture debate as he stresses the notion that with the emergence of globalization there is more “physical mobility than ever before, but the key to its cultural impact is in the transformation of localities themselves” (Tomlinson, 1999, p. 29).

According to Tomlinson, globalization refers to the “rapidly developing and ever-densening network of interconnections and interdependences that characterize modern social life” (p. 2). He sees the world getting ‘smaller’, (through global media, the internet, telecommunications) and state boundaries becoming more ‘porous’ (seen through increased travel/migration).

In The Global Age, Albrow<sup>10</sup> issues an argument for globalization that leans on the relationship it has to modernity. The notion, here, is that the nation-state is linked to modernity, while the new global age is depended upon the outlook of post-modernity. For Albrow, the Global Age engages “the supplanting of modernity with globality and

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<sup>9</sup> See John Tomlinson, 1999. Globalization and Culture. The University of Chicago Press, Chicago.

<sup>10</sup> See Martin Albrow, 1997. The Global Age. Stanford University Press, California.

this means an overall change in the basis of action and social organization for individuals and social groups” (p. 4). Consequently, the Global Age has replaced the modern age and globalization is inherently a consequence of modernity.

Conceptualizing globalization, according to Albrow, is “the most significant development and theme in contemporary life and social theory to emerge since the collapse of Marxist systems” (p. 89). I found his definition<sup>11</sup> of the term globalization to be very sophisticated and hard to understand. He was not too fond of the second (2) meaning and cited it as being “widely current and misguided” (p. 88). Albrow is very critical to those who find the concept of globalization easy to comprehend. He emphasizes that globalization is a challenge to contemporary history and merits a continuous effort necessary to achieve its framework and position in history.

In Globalization and National Economic Welfare, Panic<sup>12</sup> raises two important questions on globalization: “Is globalization inevitable? Is it a natural development in the process of industrialization or a consequence of policies imposed by the state? (p. 11). He contends that an emphasis on international economic integration and cultural harmonization best interprets globalization.

Globalization according to Panic, refers to “a process of continuous change--driven by the interaction of economic integration and cultural harmonization--that will eventually engulf every single country in the world” (p. 7). The main driving force for globalization is the rise of transnational corporations. He explains that transnational corporations are so dominant that in “one form or another affects virtually every country

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<sup>11</sup> Please refer to Table 2 for Albrow’s definition of the term globalization.

<sup>12</sup> See M. Panic, 2003. Globalization and National Economic Welfare. Palgrave Macmillan.

in the world” (p. 49). With this in my mind, what makes globalization new and credible is the rise of transnational corporations (Panic, 2003).

### *Literature on the State*

The purpose of this section is to assess the role of the state and its importance to the field of politics. The question at hand is how the role of the state has changed since the beginning of the twentieth century and if so, how is the change “new” or significant. Similar to the literature on globalization, the literature on the state is extremely vast. Because of this, I will only consider and rely on the work of Held *et al.*, and Clark to establish a definition of the state in light of globalization. These authors represent two distinct trends within the field of international relations. Held *et al.* represent an attempt to link evidence with various theoretical approaches to globalization within the field of international relations. As such, it is difficult to link their work with a particular approach to international relations. At times, they seem to favor a realist view of the state (see below). On the other hand, their approach to political economy is not a realist position in that they did not presume the state has the ability to control the economy for the state’s ends. Clark represents the most current statement by social constructivists. Of course a more complete review would require other international relations theoretical trends such as realism, idealism, liberalism, neo-liberalism and Marxism<sup>13</sup>.

### *The State Debate*

Research on the state and its role has always been quite important to the study of politics and political science. The definition of the state enlists three dominant schools of

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<sup>13</sup>“ Bringing the State Back In, not only means analyzing states as organizations that may pursue distinctive goals. It also means spelling out the ways in which states influence the meanings and methods of politics for all groups and classes in society.” See page 253 in Peter Evans, Dietrich Rueschemeyer and Theda Skocpol (eds.), 1985. Bringing the State Back In. Cambridge, UK: Cambridge University Press.

thought. The literature suggests that one's view of the state depends on either one of these schools of thought. The first school defines the state as being *the* main and primary actor on all levels. The state is the main and primary actor at both the local level and the international level. The second school takes on a more conservative approach and ideally views the state as being "at the very least an important unit of analysis" (Dougherty and Pfaltzgrapt, 2000, p. 617)<sup>14</sup>. The third and final school views the state as being impotent and no longer a significant actor.

### *The State in Relation to Globalization*

As mentioned earlier, the literature on the state is extremely vast. Similarly, competing conceptions on what the state means exist throughout the literature. Consequently, several important scholars like Nicos Poulantzas<sup>15</sup>, Ralph Miliband<sup>16</sup>, Theda Skocpol<sup>17</sup>, Ian Clark<sup>18</sup>, Held *et al.*<sup>19</sup>, Francis Lieber, Theodore Woolsey and Johann Kaspar Bluntschi have all delved into the concept of the state. While it is not the central premise of this section of the chapter to focus on the general concept of the state, it is, however, the purpose of this section to focus more on what embody state literature in relation to globalization.

After examining the literature, I felt the contributions of Held *et al* and Clark aided in establishing a more detailed systematic approach in framing the state in light of globalization.

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<sup>14</sup> See James Dougherty and Robert Pfaltzgrapt, 2000. Contending Theories of International Relations: A Comprehensive Survey. Longman.

<sup>15</sup> See Nicos Poulantzas, 1978. State, Power, and Socialism London: New Left Books.

<sup>16</sup> See Ralph Miliband, 1969. The State in Capitalistic Society: An Analysis of the Western system of Power. New York: Basic Books.

<sup>17</sup> See Peter Evans, Dietrich Rueschemeyer and Theda Skocpol (eds.), 1985. Bringing the State Back In. Cambridge, UK: Cambridge University Press.

<sup>18</sup> See Ian Clark, 1999. Globalization and International Relations Theory. Oxford University Press.

<sup>19</sup> See David Held, Anthony McGrew, David Goldblatt and Jonathan Perraton, 1999. Global Transformations. Stanford University Press: Stanford, California.

Table 3: State as Defined in the Literature by Held *et al*

<b>Author</b>	<b>State Defined in the Literature</b>
Held <i>et al</i>	<i>Modern states are nation-states –political apparatuses, distinct from both ruler and ruled, with supreme jurisdiction over a demarcated territorial area, backed by a claim to a monopoly of coercive power, and enjoying legitimacy as a result of a minimum level of support or loyalty from their citizens (p. 45).</i>

Held *et al* analyses the concept of the state and its position in the world today through the underpinnings of a contemporary historical framework. They suggest this definition is *controversial*, but admit the state itself is still a major force in its own right. The logic behind this force hinges on the notion that the state is dependent solely on maximizing its own internal interests and does not need to reflect external interests. In this regard, their approach is consistent with realist theory.

Table 4: State as Defined in the Literature by Clark

<b>Type(s)</b>	<b>State Defined in the Literature</b>
<b>Broker State</b>	<i>The focus on globalization, and the role of the state in globalization, illustrates this general claim. The state has been the broker of globalization, a key player in determining whether the costs of international disciplines should be borne domestically, or whether domestic disturbance will be allowed to overthrow international regulation (p. 67).</i>
<b>Globalized State</b>	<i>Globalization impinges not only on states and the system of which they are a part, but also upon those specific political trade-offs between them that have done so much to shape the identities of both during the recent historical period. To present globalization as a threat to the state, in isolation, is then to miss the central point: what it destabilizes is not the state, but that particular accommodation between the domestic and international components of order (p. 54).</i>

Clark’s focus on the state in the relation to globalization is two fold. He centers his argument on what he calls the ‘broker state’ and on what he calls the ‘globalized

state.’ The notion of the ‘broker state’ prevails heavily on Hobson’s critique<sup>20</sup> of neo-realism and focuses mainly on state capacity, and its non-linear relation to globalization (Clark, 1999). To be more precise, how are the external costs of state behavior administered in light of globalization? Similarly, the idea of the ‘globalized state’ impinges on the claim that “globalization must not be seen narrowly as a shift in relations between states, but must at the same time be recognized as a transformation in the nature of the state itself (Clark, 1999, p. 65). The notion here is that globalization is not withering away the state only re-shaping it and in the end it is ‘what states make of it.’

Table 5: State in Light of Globalization

Author(s)	State in Light of Globalization
Held et al	<i>While the concept of sovereignty has by no means been rendered redundant, state sovereignty today jostles for recognition alongside novel forms of political power and sites of authority (p. 86).</i>
Clark	<i>The core of the unfolding argument is that globalization needs also to be understood as a number of changes within the state, and not simply as a range of external forces set against it (p. 52).</i>  <i>States are not what they are simply because of what globalization has done to them; globalization is at least as much what it is because of what states have already become (p. 90).</i>

### *The State in Relation to Sovereignty and Globalization*

A discussion or even an analysis of state capacity in light of globalization is not complete and fair, by any means, without involving a dialogue of sovereignty into the mix. Many sources and scholars link sovereignty in their literature to mean state’s will, ‘absolute right to govern’, ‘supreme authority’ and ‘uncontrollable power’. The literature

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<sup>20</sup> See J. Hobson, 1997. The Wealth of States: A Comparative Study of International Economic and Political Change. Cambridge.



suggests, then, state's existence or demise depends on sovereignty and it is sovereignty that distinguishes states.

Table 6: Sovereignty as Defined in the Literature by Clark

Claim(s)	State in Relation to Sovereignty and Globalization
Zero-Sum	<i>...there is force to the suggestion that globalization requires sovereignty, not only as a real-life political infrastructure to sustain it, but also conceptually. Were not sovereignty still a meaningful part of the way we describe the world, we would have no need for a concept such as globalization...even if less visibly, the very idea of globalization is inherently dependent upon that of sovereignty (p. 78).</i>
Positive-Sum	<i>...forms of sovereignty are at the very least changing, and at worst are being whole undermined, by its progressive spread. Indeed, in some accounts, it is precisely on the basis of changing conceptions of sovereignty that the notion of globalization is itself to be understood: we know that globalization is happening because of the changing practices of sovereignty (p. 78).</i>

The lesson we are to take concerning the state in relation to sovereignty and globalization is two fold. The literature wants us to believe that “sovereignty both traces, but also in turn shapes, the contours of globalization because both are rooted in changing state practice” (Clark, 1999, p. 71). The literature also wants us not to believe the claim that globalization diminishes sovereignty and in turn brings ‘the end of sovereignty’ and ‘the demise of the state’.

***Literature on the National/International/Global Economy***

This section focuses on what several prominent and leading scholars such as Clark, Sassen, Gartzke and Li, Greider, Albrow, Krugman, Bhagwati, and Stiglitz cite in the literature as what entails a national economy and what entails a global economy. Similar to the literature on globalization, competing conceptions of *what is a national economy* and *what is a global economy* exist throughout the literature.

There is a cause for concern, however, the national/global economy literature not only ultimately fails to suggest or tease out a precise definition of the terms, but also fails on making the differences clear. There is not much mentioned in the literature about what distinguishes a national economy from a global economy.

All the works I have reviewed all danced around the topic and none were very clear about establishing a precise or even a meaning for *what is a national economy* and *what is a global economy*. At the same time, however, this may be a good thing. I can use some of their ideas and contributions to do the clear conceptualization that none do.

Economists on a whole are still not offering clarity on the differences. Prominent economists such as Krugman<sup>21</sup>, Bhagwati<sup>22</sup>, and Stiglitz<sup>23</sup> all drew blanks on suggesting or offering clear evidence on the topic. All three -Krugman, Bhagwati, and Stiglitz- rarely used the term global economy in their works and if they did, it was used freely with no particular interpretation. Consequently, the literature I reviewed had to be by sociologists, geographers, and political economists. I have placed in Table 2.5 a summary of statements found in the literature that somewhat highlights a little *what is a national economy* and *what is a global economy*.

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<sup>21</sup> See <http://www.worldandi.com/specialreport/1995/january/Sa13212.htm> (accessed on April 3, 2004).

<sup>22</sup> See Jagdish Bhagwati, 2004. *In Defense of Globalization*. Oxford Press.

<sup>23</sup> See Joseph Stiglitz, 2003. *Globalization and Its Discontents*. W.W. Norton and Company.

Table 7: Statements of National/Global Economy Mentioned in the Literature

Author(s)	National/Global Economy Literature
Greider	<i>the global economy divides every society into new camps of conflicting economic interests...It undermines every nation's ability to maintain social cohesion (p. 18)</i>
Sassen	<i>...many transactions that are a key part of the global economy do not cross borders, or do not do so in the ways that investment and trade do, but are located inside national economies...Less attention has gone to the formation of an emerging institutional framework to govern the global economy and the inevitable implications this has for the exclusive authority of the modern national state over its territory, that is, its exclusive territoriality (p. 159).</i>
Clark	<i>Globalization might cause national economies to disappear, or it might cause them to behave in uniform ways, but one surely cannot argue for both propositions at the same time... regulatory institutions and the global economy are, conjointly, an indication of the extent of state transformation already undertaken (p. 104).</i>
Albrow	<p><i>The advent of globality in the world economy provides the clearest example of the new challenge to the nation-state. For a century in modern economics there was a consensus on taking national economies as the focus of the analysis in the context of a world of national economies (p. 128)</i></p> <p><i>The move by governments away from macroeconomic management reflects the interdependence of national economies and the ever growing constraints on government economic policy (p. 123)</i></p>
Gartzke and Li	<i>The idea that the global economy impacts the disputatiousness of states is certainly not new...markets that span borders would have pacific effects (p. 562)</i>

I felt the literature did not stress a calling for a definition of the terms. Scholars used ‘global economy’ and ‘national economy’ freely in their titles without actually defining or making these terms the main unit of analysis. Similarly, words such as ‘international economy,’ ‘world markets,’ ‘globalized markets,’ and ‘global system’ was consistently used interchangeably to refer to global economy.

My review of the literature confirms that no one has clearly established differences between a national economy, an international economy, and a global economy. Furthermore, no one has established what role the state has played in bringing

about a global economy. Therefore, in the next chapter, I will attempt to advance an answer to this relationship through a case study of Guatemala.

### Chapter Three: A Case Study of Guatemala's Economy

*“On a clear day one can witness both topographical worlds from the peak of the extinct Volcán de Agua. Looking toward the Pacific Ocean, the country’s economic heartland fans out before you. In the distance, vast agro-export plantations extend to the sea. Closer in, as the terrain rises; the folds of the hills and the volcano itself are covered with the deep green of coffee bushes... Poverty and hunger stalk these mountains. From the youngest to the oldest, the focus of daily life is survival. Young girls walk for miles carrying heavy jars of water. By the side of the road, old men, like pack animals, carry impossibly heavy burdens of firewood and agricultural produce.”*

--Tom Barry<sup>24</sup>

The literature confirms that no one has clearly established differences between a national economy, an international economy, and a global economy. Furthermore, no one has established what role the state has played in bringing about a global economy. Therefore, this chapter will attempt to advance an answer to this relationship through a case study of Guatemala's Economy.

#### ***Expected Results***

The claim I want to make under this section and for this chapter is that I understand clearly that only selecting one case study will bring limited results and not be sufficient for testing the present hypothesis. However, the purpose of pursuing this case study is in order to test out the issues and further develop the method whereby the

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<sup>24</sup> See page xiii in Tom Barry, 1992. Inside Guatemala. Inter-Hemispheric Education Resource Center: Albuquerque, New Mexico. Barry describes what an early morning is like in Guatemala. He further explains that even with such a majestic image, one is afraid to encounter the second side to such image.

hypothesis can be tested. I hope I am able to create a framework that others can review or modify for their own future studies.

### ***Hypothesis***

I propose that changes in state policies have led to a change from an international economy to a global economy, thereby contributing to the emergence of contemporary globalization. A change in state power/authority has affected the overall economy. This shift has caused the economy to transform from a national economy to a global economy.

### ***Research Question(s) Revisited***

I would like to review the current status of national economies to determine if they have changed and thereby been absorbed by a global economy. What have been the characteristics of national economies? Do these characteristics still exist? If national economies continue to have the same characteristics they have developed since the 18th century then, what is meant by a global economy? Does it exist? What is the difference between an international economy and a global economy? How do political economists and economists view national economies and the global economy? Are the traditional variables (such as GNP, GDP, savings rate and others) used to measure changes in national economies still applicable? Has the relationship between the economy and the state changed or remained unchanged since the development of that relationship in the 18th century?

Among these questions, the central question I plan to address is: have national economies changed and become subsumed under a global economy?

## ***Method***

A case study of Guatemala's Economy is the approach I will take to test the hypothesis. The time period for this study will be from 1982 to 2002. The economy of Guatemala is comprised of three key sectors. These sectors include Agriculture, Industry, and Services. I will study the relationship the state has with these key sectors and also the relationship these three sectors have with the state.

## ***Independent Variable and Dependent Variable***

I have decided to use *National Economy* as my dependent variable and *State Economic Policies* as my independent variable. In other words, National Economy will be my response variable and State Economic Policies will be my predictor variable. Both variables will provide a linear relationship. The question at hand, however, involves the type or form of linear relationship. Will there be a positive or a negative (inverse) relationship?

## ***Why Use Guatemala as the Study Area?***

Guatemala was once a colony of Spain and gained its independence in 1821. According to the CIA's World Factbook, in the late 20<sup>th</sup> century, Guatemala "experienced a variety of military and civilian governments as well as a 36-year guerrilla war."<sup>25</sup> The country then witnessed in 1996 a peace agreement "ending the conflict, which had led to the death of more than 100,000 people and had created some 1 million refugees."<sup>26</sup>

Guatemala has a population of 13.9 million with a GDP of about US\$ 22.6 billion. It has the largest economy, to date, in Central America. In 2002, Guatemala's share in

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<sup>25</sup> See <http://www.cia.gov/cia/publications/factbook/geos/gt.html> (accessed on February 3, 2004).

<sup>26</sup> See footnote 24.

GDP relative to Central America as a whole was close to 30 percent. The United States is the country's most important trading partner, accounting for about 35 percent of Guatemalan exports and about 40 percent of its imports.

### *Profile of Guatemala*

Compared with other Latin American countries, urbanization is slow and gradual. Guatemala is mainly a rural society. It is the northernmost and most populous country in Central America. In 1980, the nation had a population of 7 million people and 9.6 million in 1990. Today, Guatemala has a population of 13.9 million. The annual growth rate in population is expanding at a rate close to 3 percent.

A little more than half of the population are descendants of the Mayan Indians and almost all Guatemalans are Roman Catholic while a few are Protestant. Numerous Indian dialects are spoken, but Spanish dominates the written and spoken language.

Figure 2: Map of Guatemala



Source: 2003 CIA World Factbook



Guatemala is located in Central America and is bordered to the north and west by Mexico, to the southeast by El Salvador and Honduras and to the east by Belize. In addition, Guatemala is bordered to the east by the Atlantic Ocean and to the south by the Pacific Ocean. The literature suggests when compared with the United States, Guatemala is “slightly smaller than Tennessee.”<sup>27</sup> The capital is Guatemala City and is the largest city in Central America.

*State*

Guatemala is a constitutional democratic republic with 22 administrative departments. This means, a democracy that reflects and permits the protection and provision of civil liberties and human rights. In 1985, Guatemala’s constitution was adopted and then later amended in 1994. It allows an elected president to serve a four-year non-renewable term. It also allows an elected unicameral legislature, comprised of 140 members, to serve a four-year non-renewable term. In November 2003, its 6<sup>th</sup> democratically chosen government was elected.

Table 8: Major Political Parties in Guatemala

<b>Acronym</b>	<b>Political Party</b>
DCG	Christian Democratic Party
FRG	Guatemalan Republic Front
GANA	Grand National Alliance
PAN	National Advancement Party
UNE	National Unity for Hope

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<sup>27</sup> See <http://www.cia.gov/cia/publications/factbook/geos/gt.html> (accessed on February 3, 2004).

Table 9: Names of Guatemalan Presidents

<b>Term</b>	<b>President</b>	<b>Political Affiliation</b>
2003-	Oscar Berger	Grand National Alliance
2000-2003	Alfonso Portillo	Guatemalan Republican Front
1996-2000	Álvaro Arzú Yrigoyen	National Advancement Party
1993-1996	Ramiro de León Carpio	non-party
1991-1993	Jorge Antonio Serrano Elías	Solidarity Action Movement
1986-1991	Marco Vinicio Cerezo Arévalo	Christian Democratic Party
1983-1986	Óscar Humberto Mejía Víctores	Military
1982-1983	Efraín Ríos Montt	Military
1978-1982	Fernando Romeo Lucas García	National Liberation Movement/Revolutionary Party

Source<sup>28</sup>: <http://www.georgetown.edu/pdba/Executive/Guate/pres.html>

## Part 1:

### *Guatemala's External Economic Relations*

#### *Balance of Payments*

There are three measures that the IMF uses to interpret and analyze the balance of payments for any country they surveyed. These measures are *Current Account*, *Capital Account*, and *Financial Account*.

Table 10: Guatemala's Balance of Payments

<i>(in US\$ Millions)</i>	<b>1984</b>	<b>1992</b>	<b>2002</b>
Current Account	-377.4	-705.9	-1193
Capital Account	N.A.	61.6 <sup>29</sup>	129.8
Financial Account	-247.3	610.5	1172.7

Note: Minus sign means debit.

Source<sup>30</sup>: IMF International Financial Statistics

The preceding table provides data on several measures of Guatemala's Balance of Payments. The current account "is the sum of the balance on goods, services, and income

<sup>28</sup> See Political Database of the Americas (1999) Guatemala: Chronology of Presidents. [Internet]. Georgetown University and the Organization of American States. In: <http://www.georgetown.edu/pdba/Executive/Guate/pres.html>. 16 May 2000. (accessed on February 3, 2004).

<sup>29</sup> This is actually Guatemala's capital account for 1995. Figures for Guatemala's capital account were not available until 1995.

<sup>30</sup> The figures for 1984 were obtained from the March-April 1991 edition of the IMF International Financial Statistics, figures for 1992 from the April 1999 edition and figures for 2002 from the April 2004 edition.

plus current transfers, n.i.e.: credit, plus current transfers: debit.”<sup>31</sup> In Guatemala, the current account has progressively moved in the direction of greater deficits. The literature suggests this is due mainly in part to persistent and increasing trade deficits. From 1984 to 2002, the current account increased its deficit by 815.6 million US dollars. In 2002, the current account increased by a little more than 3 times that of 1984. The capital account “is the balance on the capital account (capital account, n.i.e.: credit plus capital account: debit).”<sup>32</sup> Figures for Guatemala’s capital account were not available until 1995. In 1995, Guatemala’s capital account was 61.6 million US dollars and in less than 10 years, it more than doubled as it rose to 129.8 million US dollars. The financial account “is the net sum of direct investment, portfolio investment, financial derivatives, and other investments.”<sup>33</sup> In Guatemala, the financial account has progressively increased and has moved in a positive direction. The literature suggests that this is due mainly to an increase in non-resident/international capital being invested inside the Guatemalan economy. In 1984, Guatemala’s financial account was a negative 247.3 million US dollars. This was due to a lack of confidence, by investors, in the financial system made possible by the violent and unstable political environment at the time. From 1992 to 2002, Guatemala’s financial account surplus almost doubled.

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<sup>31</sup> This definition was taken from the April 2004 edition of the IMF International Financial Statistics on page xxi. For a more detailed description of these and other terms refer to the previously mentioned page.

<sup>32</sup> Please refer to footnote 30.

<sup>33</sup> Please refer to footnote 30 on page xxii.

Trade

Table 11: Classification of the Three Sectors

Agriculture	sugarcane, corn, bananas, coffee, beans, cardamom, cattle, sheep, pigs, and chickens
Industry	sugar, textiles and clothing, furniture, chemicals, petroleum, metals, rubber, and tourism
Services	commerce, restaurants, hotels, and financial services

Source: 2003 CIA World Factbook

The economy of Guatemala is comprised of three key sectors. These sectors include Agriculture, Industry, and Services. Table 11 provides a description of what makes up each sector. Just recently, tourism and exports of textiles and clothing have been quite important to the growth of Guatemala's industrial sector. Commerce remains the dominant sub-sector in services and, in agriculture, bananas, coffee and sugarcane still remains quite important.

Table 12: Classification of Trade in Guatemala

Exports	coffee, sugar, bananas, fruits and vegetables, cardamom, meat, apparel, petroleum, and electricity
Imports	fuels, machinery and transport equipment, construction materials, grain, fertilizers, and electricity

Source: 2003 CIA World Factbook

Table 12 provides information on the classification of trade in Guatemala. During the time period of this study, the literature suggested that bananas, coffee and sugar were Guatemala's main export products and fuels, construction materials and machinery and transport equipment were Guatemala's main import products.

Table 13: Trade in Guatemala

<i>(in US \$ Billions)</i>	<b>1982</b>	<b>1992</b>	<b>2002</b>
Exports	1.2	1.8	3.9
Imports	1.6	2.8	6.5

Source: World Bank (Guatemala, 2003)

Table 13 provides data on trade in Guatemala. During the time period of this study, imports exceeded exports. Guatemala has been and continues to be in a growing trade deficit. From 1982 to 2002, Guatemala's exports have steadily increased, but not as quickly as imports. Consequently, from 1982 to 2002, exports increased by a little more than 3 times and imports increased by a little more than 4 times. From 1982 to 1992, Guatemala's exports increased by 6 million US dollars and imports increased by 1.2 billion US dollars. From 1992 to 2002, exports more than doubled and imports increased by 2.3 times.

*Gross Domestic Product (GDP)*

Table 14: Guatemala Compared to Other Central American Countries

<b>GDP (in US \$ billions)</b>	<b>1982</b>	<b>1992</b>	<b>2002</b>
Guatemala	8.9	10.2	22.6
Belize	N.A.	0.49	0.84
Costa Rica	2.4	6.5	16.8
El Salvador	3.6	5.4	14.3
Honduras	2.9	3.2	6.6
Nicaragua	2.8	1.8	4.0
Panama	4.3	6.6	12.3

Source: IMF International Financial Statistics, and World Development Indicators Database, World Bank, April 2004

Table 14 provides data on Guatemala's GDP relative to the GDP's of other Central American countries. From 1982 to 2002, Guatemala's GDP was the largest of all Central American countries. In both 1982 and 1992, Panama's GDP was the second largest relative to Guatemala's GDP. In 1982, Guatemala's GDP was almost two times that of Panama and in 1992, it was a little more than 1.5 times. In 2002, Costa Rica's GDP was the second largest relative to Guatemala's GDP. During this time, Guatemala's GDP was a little more than 1.3 times that of Costa Rica.

Table 15: Guatemala Relative to Central America as a Whole

<b>GDP (in US \$ billions)</b>	<b>1982</b>	<b>1992</b>	<b>2002</b>
Guatemala	8.9	10.2	22.6
Central America	24.9	34.2	77.4

Source: IMF International Financial Statistics and World Development Indicators Database, World Bank, April 2004

Table 15 provides data on Guatemala's GDP relative to Central America as a whole. From 1982 to 2002, Guatemala's share in GDP relative to Central America as a whole has steadily declined. In 1982, Guatemala's share in GDP relative to Central America as a whole was 35.7 percent, in 1992 it was 29.8 percent and in 2002 it was 29.1 percent. Even though, Guatemala's average annual growth rate in GDP has progressively increased, its share in GDP relative to Central America as a whole has steadily declined. The GDP's from countries like Costa Rica, El Salvador and Panama are steadily inching closer relative to Guatemala's GDP.

Table 16: Guatemala Relative to the United States

<b>GDP (in US \$ billions)</b>	<b>1982</b>	<b>1992</b>	<b>2002</b>
Guatemala	8.9	10.2	22.6
United States	3021.3	6244.4	10383.1

Source: IMF International Financial Statistics

Table 16 provides data on Guatemala's GDP relative to the United States. From 1982 to 2002, Guatemala's GDP when compared to the GDP of the United States represented less than 1 percent. In 1982, Guatemala's GDP when compared to the GDP of the United States represented 0.0029 percent, in 1992 it represented 0.0016 percent, and in 2002 it represented 0.0021 percent.

Table 17: Guatemala Relative to the World (Average Annual GDP)

<b>GDP (in US \$ billions)</b>	<b>1981-1990</b>	<b>1991-2000</b>
World	23304.8	32312.1

Source: World Development Indicators Database, World Bank, April 2004

Table 17 provides data on Guatemala’s GDP relative to the World. From 1981 to 1990, Guatemala’s GDP when compared to the GDP of the World represented 0.0004 percent, and from 1991 to 2000, it represented 0.0005 percent.

*Foreign Direct Investment (FDI)*

Table 18: Reporting Direct Investment In and Out of Guatemala

<b>Guatemala (in US \$ millions)</b>	<b>1982</b>	<b>1992</b>	<b>2002</b>
Direct Investment Abroad	N.A.	N.A.	N.A.
Direct Investment in the Reporting Economy	77.1	94.1	110.2

Source: IMF International Financial Statistics

*Direct investment abroad* stands for domestic capital invested outside the Guatemalan economy and *Direct Investment in the Reporting Economy* (FDI) stands for international capital invested inside the Guatemalan economy. According to the IMF International Financial Statistics, direct investment abroad is expressed “with a negative figure, reflecting an increase in net outward investment by residents, with a corresponding net payment outflow from the reporting economy” and direct investment in the reporting economy is expressed as “a positive figure, reflecting an increase in net inward investment by nonresidents, with a corresponding net payment inflow into the reporting economy.”<sup>34</sup> During the time period of this study, 1982-2002, the IMF International Financial Statistics did not report figures for Guatemala’s *direct investment abroad*. They only reported figures for *direct investment in the reporting economy*. It is believed that in the early to mid 1980s, investments in Guatemala, either domestic or foreign, were categorized and recorded as the same. It was not until the 1990s when the IMF began to classify and report both. However, from 1991 till 2002, figures for *direct investment abroad* were expressed in the reports as ‘not available’.

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<sup>34</sup> See page xxi in the April 2004 edition of the IMF International Financial Statistics.

From 1982 to 2002, FDI in Guatemala has steadily increased. From 1982 to 1992, it increased by 17 million US dollars and this represented an increase of 22 percent. From 1992 to 2002, Guatemala's FDI increased by 16.1 million US dollars and this represented an increase of 17 percent.

### ***Government Policy Changes Related to Guatemala's External Economic Relations***

This section investigates the efforts, if any, by the IMF, WTO and the World Bank to influence government policy changes related to external economic relations in Guatemala. During the time period of this study, the IMF, WTO, and the World Bank did not present much detailed literature on government policy changes related to external economic relations in Guatemala. Both the IMF and the World Bank tended to focus more on the analysis of the raw data of the country's external economic relations. That is, analyzing more in detail Guatemala's balance of payments, GDP, FDI and Trade.

### ***Financial Sector***

However, the WTO did mention that Guatemala is in the process of strengthening its financial sector. The WTO explains that competition for foreign investment is fierce and Guatemala is currently loosing out on potential foreign investments as well as foreign aid. According to the WTO, Guatemala's financial sector needs to be modernized in order to attract foreign investments. The government wants to increase market access to the financial sector and the WTO cites 'Within the framework of the programme to strengthen the national financial system the following draft laws are now under discussion and await approval by the relevant authorities: the Law on Banks and Financial Groups, the Law on Financial Supervision, the Organic Law of the Bank of Guatemala, the Currency Law, and the Law on Insurance Activities. The legal reforms



proposed are intended to strengthen the national financial system and ensure greater supervision, by providing a general legal framework that will bring greater legal certainty and help to make the financial institutions more efficient, solid, transparent and competitive, on the basis of a preventative approach, and thereby contributing to the development of the domestic economy and strengthening public trust in saving and investment.”<sup>35</sup> This is an important step for Guatemala’s financial sector. Not only will the financial sector benefit, but also other sectors such as agriculture, industry and services, will benefit. The literature, however, does not indicate the time frame for these draft laws to be approved.

### *Trade*

The literature suggests that trade in recent years has helped Guatemala improve its economic growth and development. Guatemala uses tariffs as a means of border protection and MFN status is given to all its trading partners. During the time period of this study, the average MFN rate was 7 percent, the average tariff on agricultural imports was 10.2 percent, and the average tariff on non-agricultural products was 6.4 percent. The WTO reports that under the conditions developed in the Uruguay Round, there were a number of agricultural products in which Guatemala has import tariffs quotas. Conversely, the WTO cites, “In the Uruguay Round, Guatemala bound all its tariffs. While non-agricultural products were bound at a ceiling rate of 45 percent, Guatemala’s final bound rates for agricultural products range from 10 percent to 257 percent. Closing the wide margin between applied and bound rates would further increase the predictability of market access conditions.”<sup>36</sup> The WTO believes that Guatemala is

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<sup>35</sup> See [http://www.wto.org/english/tratop\\_e/tpr\\_e/tp184\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tp184_e.htm)(accessed on May 2, 2004).

<sup>36</sup> See [http://www.wto.org/english/tratop\\_e/tpr\\_e/tp184\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tp184_e.htm)(accessed on May 2, 2004).

making it a priority to improve market access for its partners. Moreover, it is interesting to note that Guatemala offers the members from the Central American Common Market duty-free access to most of their imports and, in addition, provides preferential tariffs to countries like Mexico, Cuba, Panama, Colombia and Venezuela.

## **Part 2: Guatemala's National Economy**

### *Economy*

As mentioned earlier, Guatemala has the largest economy in Central America. Trudeau<sup>37</sup> writes, in his 1993 *Guatemalan Politics* book, “Economically, the historical dynamics are clear: the nation’s prevailing economic model is oligarchic capitalism strongly dependent on resources that the state commands...Government is a major actor because the economic model requires it to be so, not because the state is responding to the citizens’ demands as a whole” (p. 28). This economic model was formed sometime after 1954. The economy was no longer dominated by the ‘coffee-based oligarchy’ and governments, thereafter, began to realize that there was a need to diversify the economy. “This diversity increased as governments after 1954 encouraged industrialization and agricultural diversification into cotton, sugar, and cattle, and opened Guatemala to foreign investment in such diverse industries as banking, mining, food processing, pharmaceuticals, oil refining, paper, and steel tubing.”<sup>38</sup> The Guatemalan economy was no longer homogeneous and this model claimed to aid “economic modernization without social reform.” It is unclear in the literature whether this economic model, as is, still persists today. However, it is clear that some variation of the model still exists.

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<sup>37</sup> See Robert Trudeau, 1993. Guatemalan Politics: The Popular Struggle for Democracy. Lynne Rienner Publishers.

<sup>38</sup> See page 23-24 in footnote 36.

Table 19: Guatemala's GDP

<b>GDP (in US \$ billions)</b>	<b>1982</b>	<b>1992</b>	<b>2002</b>
Guatemala	8.9	10.2	22.6

Source: IMF International Financial Statistics

Table 19 provides data on Guatemala's GDP covering from 1982 to 2002. This data is measured in billions of US dollars. From 1982 to 1992, the average annual growth rate in GDP was 2.2 percent and from 1992 to 2002, the average annual growth rate was 3.8 percent. In addition, from 1982 to 1992, Guatemala's GDP increased by 1.3 billion US dollars and this represented an increase of 14.6 percent. From 1992 to 2002, Guatemala's GDP increased by 12.4 billion US dollars and this represented an increase of 121.5 percent.

Table 20: The Structure of Guatemala's Economy

<b>% of GDP</b>	<b>1982</b>	<b>1992</b>	<b>2001</b>
Agriculture	25.1	25.3	23.0
Industry	21.2	20.0	20.0
Services	53.6	54.7	57.0

Source: World Bank (Guatemala, 2003)

The economy of Guatemala is comprised of three key sectors. These sectors include Agriculture, Industry, and Services. Table 3.12 provides data on the structure of Guatemala's Economy. From 1982 to 2001, agriculture as a percent of GDP has declined by 2.1 percentage points, industry as a percent of GDP has declined by 1.2 percentage points, and services as a percent of GDP has increased by 3.4 percentage points. In 1982, agriculture accounted for 25.1 percent of Guatemala's GDP, industry accounted for 21.2 percent, and services accounted for 53.6 percent. In 1992, agriculture accounted for 25.3 percent of Guatemala's GDP, industry accounted for 20 percent, and services accounted for 54.7 percent. In 2001, agriculture accounted for 23 percent of Guatemala's GDP, industry accounted for 20 percent, and services accounted for 57 percent.

Table 21: Guatemala's Unemployment Rates (in %)

1988	1992	2002
15	13	7.5 <sup>39</sup>

Source: CIA World Factbook

Table 21 provides data on Guatemala's unemployment rates. From 1988 to 2002, the unemployment rate has decreased by half. From 1988 to 1992, the unemployment rate has decreased by 13.3 percent, and from 1992 to 2002, it has been sliced by 42 percent.

Table 22: Guatemala's Inflation Rates (in %)

1986	1992	2002
36.9	15 <sup>40</sup>	8.1

Source: CIA World Factbook

Table 22 provides data on Guatemala's inflation rates. From 1986 to 2002, the inflation rate has progressively decreased. From 1986 to 1992, the inflation rate has decreased by 60 percent, and from 1992 to 2002, it decreased by 46 percent.

Table 23: Guatemala's Overall Surplus/Deficit (as a % of GDP)

1980	1992	2002
-3.4	-0.9	-1.5

Source: World Bank (Guatemala, 2003)

Table 23 provides information on Guatemala's overall surplus/deficit. From 1980 to 1992, Guatemala's deficit as a percent of GDP decreased by 73 percent, and from 1992 to 2002, its deficit as a percent of GDP increased by 66 percent.

***State Economic Policies Toward Public Owned Utilities, Telecommunication and Transportation***

The signing of the 1996 peace agreement between the Government and the National Guatemalan Revolutionary Unity (URNG) has allowed the Government the

<sup>39</sup> This is actually Guatemala's unemployment rate for 1999.

<sup>40</sup> This is actually Guatemala's inflation rate for 1989.

chance and time to center more of its efforts and resources on ‘economic development’ and ‘modernization.’

Between 1996 and 1998, the Government embarked on several privatizations. “A fundamental objective of the country's economic policy in recent years has been to reduce the role of the State in the economy and promote greater private sector participation. Accordingly, from 1996 onwards as part of the economic policy measures directed towards the economic modernization of the country the government initiated a process of disposing of State assets through the sale of 80 percent of the shares of the Empresa Eléctrica de Guatemala (EEGSA), 95 percent of the shares of the Empresa de Telecomunicaciones de Guatemala, S.A. (TELGUA) and of the telephone-band operating concession, the sale of two distribution companies of the Instituto Nacional de Electrificación (INDE), the usufruct of the railway company of Guatemala (FEGUA) and the administration and operation of the postal services.”<sup>41</sup>

The Guatemalan economy for the most part has been traditionally freed from government control or intervention. The government finds it difficult to collect revenues and claims that there is increase corruption in its collection agents. Because of this, the literature suggests that the state is unable to procure necessary funds and consequently leading to their inability to invest in infrastructure and many desired social welfare programs.

### ***State Economic Policies Toward Agriculture***

As mentioned earlier, agriculture accounts for about 23 percent of Guatemala’s GDP and an overall 60 percent of the country’s exports. During the time period of this study, the agricultural sector ranged from 23 to 25 percent of the nation’s GDP. In the

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<sup>41</sup> See [http://www.wto.org/english/tratop\\_e/tpr\\_e/tp184\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tp184_e.htm)(accessed on May 2, 2004).

late 1990s till the present, there has been a slow and steady decline in the figures, in agriculture in relation to GDP. The literature suggests that the slight decline in the figures is being anticipated and is not a major cause for concern as yet. Agriculture will still continue to account for more than 60 percent of the overall exports and continue to employ more than half of the work force. The rise of nontraditional exports, especially exports of garments, is one of the causes of the slight drop in the agriculture figures. In the late to mid 1990s, market demand for garments rose and with U.S. investments propelled Guatemala to export garments.

The government has also introduced new tariff reductions, and opened up several preferential agreements with new and existing trading partners. This is said to help improve access into the Guatemalan market. In 1991, Guatemala joined the GATT and in 1995 became a member of the WTO. According to the WTO, ‘The Ministry of Economy is the lead agency for all issues related to foreign trade...As an international treaty; the WTO Agreements take precedence in Guatemala over domestic legislation.’<sup>42</sup> The is important because the WTO feels that their involvement has helped Guatemala ‘in the multilateral trading system, taking part in the negotiations on telecommunications services, and making use of the dispute settlement mechanism on a few occasions.’<sup>43</sup>

The government has also been busy trying to increase its participation in free trade agreements (FTAs) with several countries. The Central American Common Market (CACM) still remains as Guatemala’s main source of regional trade. According to the literature, Guatemala has been in preliminary discussions with Canada, Chile, the Dominican Republic, and Panama for establishing Free Trade Agreements. They are also

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<sup>42</sup> Please refer to footnote 40.

<sup>43</sup> See [http://www.wto.org/english/tratop\\_e/tpr\\_e/tp184\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tp184_e.htm)(accessed on May 2, 2004).

in preliminary stages on establishing a customs union with El Salvador, Honduras and Nicaragua. Guatemala is currently involved in Free Trade Agreements with Mexico, Colombia, Cuba, and Venezuela.

### ***State Economic Policies Toward Industry***

As previously mentioned, industry which includes manufacturing, mining, construction, water and electricity generates about 20 percent of GDP. During the time period of this study, the industrial sector ranged from 20 to 21 percent of the nation's GDP.

In the early 1960s, the industrial sector made its mark as part of the Guatemalan economy around the same time the Central American Common Market was formed. However, in the late 1970s, war and violence within Guatemala affected the relations on an already diminishing Central American Common Market. This affected the industrial sector greatly as "The deepening regional crisis paralleled a sectoral crisis in Guatemalan manufacturing. Having developed within a protected domestic and regional market with high import tariffs on competing goods, Guatemalan industry had grown inefficient and lax. Not forced to contend with international producers, local manufacturers operated with obsolete plants and technology."<sup>44</sup> It was not until the late 1980's when the industrial sector began to reach the level it has today. This slight rise was characterized by a gradual easing of domestic violence and improved trade relations with the United States. The literature cites that one of the reasons for the slight rise of the industrial sector is due in part to the rise in nontraditional exports. As mentioned earlier, market demand for exports of garments helped the industrial sector. Guatemala with aid from

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<sup>44</sup> See page 111 in Tom Barry, 1992. Inside Guatemala. Inter-Hemispheric Education Resource Center: Albuquerque, New Mexico.

US investments allowed them to meet market supply. However, government's inability to invest in infrastructure and the damages by Tropical Storm Mitch has plagued the industrial sector.

### ***State Economic Policies Toward Services***

As previously mentioned, the services sector account for about 57 percent of GDP. During the time period of this study, the services sector ranged from 53 to 57 percent of the nation's GDP. From 1982 to 1992, the average annual growth rate in services was 2.3 percent and from 1992 to 2001, the average annual growth rate was an overwhelmingly 4.6 percent. The literature suggests that the services sector is benefiting from the fall in percentage points from both agriculture and industry.

Foreign investment in Guatemala is encouraged and its investors are generally<sup>45</sup> given favorable treatment. The literature suggests that the largest foreign investments are by U.S. based companies. Because of this, the literature implies that the government has high hope for the continual development of the commerce sector and feels that reforms in the country's financial system will only aid in benefiting and allowing the services sector to continue is high growth.

The overall economic and public policy patterns described here will be analyzed in the following chapter, to which I now turn.

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<sup>45</sup> Foreign investors must adhere to a few minor legal restrictions.



## Chapter Four: Conclusion

### *Analyzing the Case Study Data*

The case study in chapter 3 was created to test the hypothesis. I decided to use National Economy as the dependent variable and State Economic Policies as the independent variable. Both variables, in theory, should provide a linear relationship. The question at hand, however, involved the type or form of linear relationship. Was there a positive or a negative (inverse) relationship? The time period for this study was from 1982 to 2002. The economy of Guatemala is comprised of three key sectors. These sectors included Agriculture, Industry, and Services. I reviewed the relationship the state had with these key sectors and also the relationship these three sectors had with the state.

The case study had two main parts. Part one presented data about Guatemala's external economic relations and government policy changes related to Guatemala's external economic relations. Part two presented data about Guatemala's national economy and government policy. The evidence presented in both parts will now be used to interpret and determine the validity of the hypothesis.

### *External Economic Relations and Government Policy In-Review*

Under Guatemala's external economic relations, I looked at data in the form of raw data relating to Guatemala's Balance of Payments, Gross Domestic Product (GDP), Foreign Direct Investment (FDI), and Trade. Keeping in mind, this data covered a time period from 1982 to 2002. The patterns I found for Balance of Payments are as follows:

In Guatemala, the current account had progressively moved in the direction of greater deficits. The literature suggested this was due mainly to persistent and increasing trade deficits. From 1984 to 2002, the current account increased its deficit by 815.6 million US dollars. In 2002, the current account increased by a little more than 3 times that of 1984. Figures for Guatemala's capital account, on the other hand, were not available until 1995. In 1995, Guatemala's capital account was 61.6 million US dollars and in less than 10 years, it more than doubled as it rose to 129.8 million US dollars. During the time period of this study, the financial account had progressively increased and moved in a positive direction. The literature suggested that this was due mainly to an increase in non-resident/international capital being invested inside the Guatemalan economy. In 1984, Guatemala's financial account was a negative 247.3 million US dollars. This was due to a lack of confidence, by investors, in the financial system made possible by the violent and unstable political environment at the time. From 1992 to 2002, Guatemala's financial account almost doubled. In terms of FDI in Guatemala, the pattern showed that FDI from 1982 to 2002 had steadily increased. From 1982 to 1992, it increased by 17 million US dollars or 22 percent. From 1992 to 2002, Guatemala's FDI increased by 16.1 million US dollars and this represented an increase of 17 percent.

Trade in Guatemala provided an interesting pattern. During the time period of this study, imports exceeded exports. Guatemala has been and continues to be in a growing trade deficit. From 1982 to 2002, Guatemala's exports had steadily increased, but not as quickly as imports. Consequently, from 1982 to 2002, exports increased by a little more than 3 times and imports increased by a little more than 4 times. From 1982 to 1992, Guatemala's exports increased by 6 million US dollars and imports increased by

1.2 billion US dollars. From 1992 to 2002, exports more than doubled and imports increased by 2.3 times.

Data on Guatemala's GDP relative to the GDP's of other Central American countries provided an interesting pattern. From 1982 to 2002, Guatemala's GDP was the largest of all other Central American countries. In both 1982 and 1992, Panama's GDP was the second largest relative to Guatemala's GDP. In 1982, Guatemala's GDP was almost two times that of Panama and in 1992, it was a little more than 1.5 times. In 2002, Costa Rica's GDP was the second largest relative to Guatemala's GDP. During this time, Guatemala's GDP was a little more than 1.3 times that of Costa Rica. In addition, from 1982 to 2002, Guatemala's share in GDP relative to Central America as a whole had steadily declined. In 1982, Guatemala's share in GDP relative to Central America as a whole was 35.7 percent, in 1992 it was 29.8 percent and in 2002 it was 29.1 percent. Even though, Guatemala's average annual growth rate in GDP had progressively increased, its share in GDP relative to Central America as a whole had steadily declined. The GDP's from countries like Costa Rica, El Salvador and Panama are steadily inching closer relative to Guatemala's GDP. Guatemala's GDP relative to the United States, on the other hand, was a different story. From 1982 to 2002, Guatemala's GDP when compared to the GDP of the United States represented less than 1 percent. In 1982, Guatemala's GDP when compared to the GDP of the United States represented 0.0029 percent, in 1992 it represented 0.0016 percent, and in 2002 it represented 0.0021 percent.

Under government policy changes related to Guatemala's external economic relations, I looked at government policies on trade and the government's current reform related to finance. In addition, this section investigated the efforts, if any, by the IMF,

WTO, and the World Bank to influence government policy changes related to external economic relations in Guatemala. The patterns I found are as following: The WTO mentioned that Guatemala was in the process of strengthening its financial sector. The WTO explained that competition for foreign investment was fierce and Guatemala was currently loosing out on potential foreign investments as well as foreign aid. Guatemala's government wanted to increase market access to the financial sector and consequently, for this to occur the financial sector needed to be modernized in order to attract the required foreign investments. In terms of trade, the literature suggested that trade in recent years helped Guatemala to improve its economic growth and development. Guatemala used tariffs as a means of border protection and MFN status was given to all its trading partners. During the time period of this study, the average MFN rate was 7 percent, the average tariff on agricultural imports was 10.2 percent, and the average tariff on non-agricultural products was 6.4 percent. The WTO believed that Guatemala was making it a priority to improve market access for its partners. Moreover, it was interesting to note that Guatemala offered the members from the Central American Common Market duty-free access to most of their imports and, in addition, provided preferential tariffs to countries like Mexico, Cuba, Panama, Colombia and Venezuela.

Based on these patterns, it suggests to me that there is no relationship between Guatemala's external economic relations and government policy changes related to Guatemala's external economic relations. During the time period of this study, the IMF, WTO, and the World Bank did not present much detailed literature on government policy changes related to external economic relations in Guatemala. Both the IMF and the World Bank tended to focus more on the raw data of the country's external economic

relations. In addition, it was unclear in the literature on the government's own description of its policies. Under government policy changes related to Guatemala's external economic relations, it would have been important to provide information concerning government policies on foreign direct investment, and on trade from 1982 to 2002. The IMF International Financial Statistics and the Balance of Payments Statistics Yearbook did not provide information on Guatemala's direct investment abroad. I know the government has trade and FDI policies throughout the last 20 years, but I did not find description of these policies.

### ***Guatemala's National Economy and Government Policy In-Review***

Under Guatemala's national economy, I looked at information in the form of raw data relating to Guatemala's domestic economy. In addition, this section reviewed the relationship the state had with these sectors. Conversely, I reviewed state economic policies toward public owned utilities, telecommunication, and transportation, state economic policies toward agriculture, state economic policies toward industry, and, finally, state economic policies toward services. The patterns I found are as following: From 1982 to 1992, the average annual growth rate in GDP was 2.2 percent and from 1992 to 2002, the average annual growth rate was 3.8 percent. In addition, from 1982 to 1992, Guatemala's GDP increased by 1.3 billion US dollars and this represented an increase of 14.6 percent. From 1992 to 2002, Guatemala's GDP increased by 12.4 billion US dollars and this represented an increase of 121.5 percent. Data on the structure of Guatemala's economy provided an interesting pattern. From 1982 to 2001, agriculture as a percent of GDP declined by 2.1 percentage points, industry as a percent of GDP declined by 1.2 percentage points, and services as a percent of GDP increased by 3.4

percentage points. In 1982, agriculture accounted for 25.1 percent of Guatemala's GDP, industry accounted for 21.2 percent, and services accounted for 53.6 percent. In 1992, agriculture accounted for 25.3 percent of Guatemala's GDP, industry accounted for 20 percent, and services accounted for 54.7 percent. In 2001, agriculture accounted for 23 percent of Guatemala's GDP, industry accounted for 20 percent, and services accounted for 57 percent.

State economic policies toward public owned utilities, telecommunication and transportation suggested that the government between 1996 and 1998 embarked on several privatizations. The Guatemalan economy for the most part had been traditionally freed from government control or intervention. The government found it difficult to collect revenues and claimed that there was increase corruption in its collection agents. Because of this, the literature suggested that the state was unable to procure necessary funds and consequently leading to their inability to invest in infrastructure and many desired social welfare programs. State economic policies toward agriculture suggested that from the late 1990s to the present, there had been a slow and steady decline in agriculture in relation to GDP. The literature suggested that the slight decline in the figures was anticipated and was not a major cause for concern. Agriculture will still continue to account for more than 60 percent of the overall exports and continue to employ more than half of the work force. The rise of nontraditional exports, especially exports of garments, was one of the causes of the slight drop in the agriculture figures. In the mid to late 1990s, world demand for garments rose and with the aid of U.S. investments, propelled Guatemala to export garments. The government wanted to help improve global access in the Guatemalan market and introduced new tariff reductions,

and opened up several preferential agreements with new and existing trading partners. State economic policies toward industry suggested that the industrial sector made its mark as part of the Guatemalan economy around the same time the Central American Common Market was formed. The literature, however, cited that government's inability to invest in infrastructure and the damages by Tropical Storm Mitch had recently plagued the industrial sector and caused it to decline. State economic policies toward services suggested that during the time period of this study, the services sector ranged from 53 to 57 percent of the nation's GDP. From 1982 to 1992, the average annual growth rate in services was 2.3 percent and from 1992 to 2001, the average annual growth rate was an overwhelmingly 4.6 percent. The literature then implied that the services sector was benefiting from the fall in percentage points from both agriculture and industry.

Based on these patterns, it suggests to me that there is no known relationship between Guatemala's national economy and state economic policies toward agriculture, industry, and services. There was not much information available on government policies toward external economic relations as well as agriculture, industry, and services from 1982 to 2002. I needed to know more about Guatemala's government external policies, the garment industry, the services' markets, FDI policies, and why shifts in sectors occurred and the relation of IMF and World Bank to national economy in order to determine whether a relationship existed. There was not much information available on reasons why certain figures for Guatemala's national economy increased or decreased. That is, government policies were not available to explain such shifts in the data. Without such information, all I could have done was to cite the shifts without explaining them. Consequently, there was not enough evidence to suggest that there was a

relationship between State Economic Policies and the possible absorption of the National Economy into the Global Economy.

### ***Hypothesis' Validity***

For the hypothesis, I proposed that changes in state policies led to a change from an international economy to a global economy, thereby contributing to the emergence of contemporary globalization. A change in state power/authority affected the overall economy. This shift caused the economy to transform from a national economy to a global economy. On a level playing field, I felt there would be enough evidence to suggest that the hypothesis was valid. However, the case study on Guatemala's economy did not allow me to test the hypothesis. This was because information on Guatemala's economy and government policies dating from 1982 to 2002 was not easily assessable. Consequently, it was difficult to prove that a change in state power/authority affected the overall economy. There was no known relationship between Guatemala's external economic relations and government policy changes related to Guatemala's external economic relations. In addition there was no known relationship between Guatemala's national economy and state economic policies on agriculture, industry, and services. I felt Guatemala's political environment and endemic violence throughout the years has not allowed Guatemala's government to reach a level of independence. So, state stability is a precondition for the national economy to global economy. Hence politics is crucial for the absorption.

Similarly, this case study failed to provide enough evidence to suggest that there was a relationship between National Economy and State Economic Policies. I still believe, however, that both dependent and independent variables were appropriate to test



the hypothesis. The problem was the choice of using Guatemala's economy as the study area. Guatemala's government policies in relation to national economy were unclear. Furthermore, there was not enough evidence to suggest that State Economic Policies toward agriculture, industry, and services influenced the overall economy. The goal was to see whether it was external and/or domestic policies that influenced agriculture, industry, and services, and in turn affected the overall national economy. I felt the evidence was unclear most of the time and it was difficult to identify much more to determine which type of government policies influenced each sector.

### ***Future Research***

The claim I wanted to make under this section was that I understood clearly that only selecting one case study would bring limited results and not be sufficient for testing the present hypothesis. However, the purpose of pursuing this case study was to test the issues and further develop the method whereby the hypothesis can be tested. My goal was to create a framework that others could review or modify for their own future studies.

I felt the study time period of 1982 to 2002 was a good benchmark and testing this hypothesis on countries that participated in regional trade would have been a better fit and choice. I hope future studies involve a comparative analysis of several case studies to test and verify the hypothesis. I would like to see a case study on Central America's economy, and/or a case study on South America's economy, and/or a case study on the EU's economy. In the end, I believe testing the hypothesis on a single country's economy will not support the hypothesis and will not provide significant findings and conclusions.

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