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GLOBAL PUBLIC POLICY

Governing without Government?

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it. *Globalization* has been applied to different institutions: the economy itself, the market, an industry, a sector, or a firm. The term has been used to describe a trend, a strategy, a condition, and a structure. But whatever aspect one focuses on, in most cases globalization appears to be understood as a continuous process of increasing cross-border economic flows, both financial and real, leading, according to some, to greater economic interdependence among formerly distinct national economies.[21] In this frame of reference, *globalization* and *interdependence* are used interchangeably, and globalization becomes no more than the relabeling of a phenomenon that has already received much attention in the field of international political economy.

This creates something of a paradox: a concept that, on one hand, is generally understood as a mere *quantitative* intensification of an ongoing trend dating back to the 1960s is also used, on the other hand, to refer to a fundamental *qualitative* transformation of the international system, leading to the end of the nation-state and justifying politically and socially difficult reforms in many countries around the world. Which understanding is the valid one has important implications for policy. If globalization means faster but still incremental change, there is little need or incentive for governments to reassess either their own role, or that of the institutions and principles that have governed the world economy since the end of World War II. If instead globalization denotes radical, sweeping transformation, it must be possible and necessary to differentiate between interdependence and globalization not only empirically but also at a more formal, conceptual level. Such a differentiation would provide the foundation upon which policymakers could reassess the role of government and governance under conditions of globalization.

Chapter 2 develops such a conceptual differentiation by introducing two distinctions concerning the concept of sovereignty. The first is between legal and operational sovereignty. Neither interdependence nor globalization can challenge the de jure or *legal* sovereignty of a nation-state. If anything, they challenge the de facto or *operational* sovereignty of a government, that is, its ability to conduct public policy. The second distinction is between internal and external sovereignty. The *internal* dimension depicts the relationship between the state and civil society and, in the economic realm, between the public and the private sector, both these pairs being functional opposites. Following Max Weber, a government is internally sovereign if it enjoys a monopoly of the legitimate power over a defined territory and its population.[22] The *external* dimension of sovereignty portrays relationships among states, these being functional equivalents, in the international system. In contrast to internal sovereignty, where the state is the central authority within its borders, external sovereignty has as its main characteristic the absence of a central authority. As Thomas Hobbes formulated it, anarchy is the constitutive rule of the international system.

This differentiation between internal and external sovereignty, based on the fact that they characterize entirely different relationships, is central to the analytical distinction between interdependence and globalization. Interdependence denotes a condition of mutual sensitivity and vulnerability among states in the international system, the source of which is external or systemic. Economic interdependence is generally understood as a challenge to the operational dimension of external sovereignty. In response to this challenge, governments since World War II have for the most part followed the principles of liberal macroeconomic internationalism, endorsing the stepwise but reciprocal reduction of their external economic sovereignty by lowering tariff barriers and relaxing capital controls.

The concept of external sovereignty loses much of its significance in an examination of the public policy implications of globalization. Globalization is for the most part a corporate-level phenomenon. It entails the application of new forms of industrial organization such as flexible manufacturing, coupled with the cross-border movement of increasingly intangible capital (including finance, technology, information, and the ownership or control of assets). This spatial reorganization of corporate activity leads to the emergence of a single, integrated economic geography defined by the reach of corporate industrial networks and their financial relationships. These networks and relationships cut across multiple political geographies, challenging the operational dimension of *internal* sovereignty, as governments no longer have a monopoly of the legitimate power over the territory within which these private sector actors organize themselves.[23] Globalization both integrates economically *and* fragments politically.

The fact that this political fragmentation threatens only the operational aspects of internal sovereignty in no way minimizes the challenge. In a democracy, sovereignty, in particular its internal dimension, is popular. Thus the threat to a government's ability to exercise internal sovereignty implies a threat not to the rules and institutions of democracy but to its effectiveness and efficiency. Citizens may continue to exercise their legal right to vote, but the power of that vote to shape public policy outcomes decreases with the decline in operational internal sovereignty. Ultimately, a persistent weakness and failure of internal operational sovereignty could lead to a questioning of the institutions and processes of democracy itself. This dynamic is not the only explanation for the exhaustion of democracy and the declining trust in institutions of governance, but it is an important contributing factor.

Governments will no doubt have to come with up with a response to globalization. Their basic options are discussed in chapter 3. In principle, policymakers have three strategies at their disposal: defensive intervention, offensive intervention, and global public policy. The first two continue to equate internal sovereignty with the territorial integrity of the nation-state. *Defensive intervention* relies on such economic measures as tariff and nontariff barriers or capital controls that force companies to reorganize along national lines much as they did before adopting global strategies. If such economic nationalism fails to arouse broad popular support, its political counterpart—territorial secession and partition—may do so. This political strategy, aimed at regaining internal sovereignty, has gained in popularity during the past decade.

Alternatively, policymakers may use *offensive intervention*. With this strategy, states themselves become global competitors by vying to provide within their respective territories the most attractive economic geography for corporations. Subsidies are used as a national policy tool to gain competitive advantage, and competitive deregulation has become common among financial centers and, more recently, among national tax jurisdictions. Politically, the popularity of offensive intervention has increased as policymakers attempt to broaden the reach of their internal sovereignty to match the economic geography of global corporate networks by relying on the extraterritorial application of internal sovereignty. In practice, however, both are in the long run very costly and politically unsustainable. They are bound to fail.

This raises the prospect of a third strategy, global public policy. This response reverses the adjustment path of the two geographies by placing the principal burden of adjustment on the political geography. However, this does *not* imply the formation of a global government—an unrealistic and impractical solution. Rather, global public policy decouples the operational aspects of internal sovereignty (governance) from its territorial foundation (the nation-state) and its institutional environment (the government). The institutional, operational, and political implications of such a decoupling are discussed.

Chapters 4, 5, and 6 examine the application of global public policy in three illustrative case studies. The financial services industry, the subject of chapter 4, is particularly useful to examine. Globalization has progressed a long way in this industry, making global financial markets "pioneers" in global public policy. The successes and failures in regulating and supervising the global financial services industry over the past fifteen years provide a rich empirical background. This history shows that policymakers are being forced to adapt many of their traditional tools of governance in order to respond to a rapidly evolving, technology-driven, and ever more complex global industry. So-called mixed (public and private, or government and self-) regulation, based on disclosure and coupled with stronger internal corporate controls, is becoming one of the core principles of global public policy in this field. As it does so it is altering corporate-government relations, as traditional lines of demarcation between the public and the private spheres are not only being redefined but becoming increasingly blurred, necessitating the formation of public-private partnerships in the management of global governance.

The case examined in chapter 5 stays within the domain of global finance, but considers another development that also requires the attention of public policy, namely, the growth of transnational criminal organizations. No doubt global crime has expanded with the end of the cold war. But transnational criminal cartels have benefited even more from the emergence of global networks in communications, information processing, and transportation, but especially in finance. The fight against money laundering is a crucial front in the war against global crime. The experience with U.S. efforts to combat money laundering reveals the need not only for a truly global approach to the problem, but also for a change in the incipient international efforts made to date. This redirection of effort must include a new public-private partnership to implement global anti–money laundering standards. Global public policy in this domain will not succeed unless such standards can be enforced. Both the International Monetary Fund and the World Bank will have to play a crucial role in that enforcement.

Chapter 6 stays in the domain of transnational crime but adds to it the security dimension. This case study examines the public policy implications of globalization for industries dealing in dual-use goods and technologies. Dual-use goods are defined broadly as goods that can be used for productive purposes in the civilian economy or for the development or enhancement of offensive military capabilities. Except for a very few items, a strategy of denying dual-use technology to would-be purchasers has been rendered all but impossible by the changing nature of warfare; by the role of technology, information, and communication in driving globalization; and by the sheer volume of cross-border economic activity. If it does anything, a strategy of denial only provides a false sense of security, increasing the risks of proliferation.

Drawing on the other two case studies, chapter 6 develops a basic structure for a dual-use regulatory regime that responds not only to the public interest aspects of security, but also to other and competing public and private interests that shape dual-use technology trade in today's world economy. This regime would be embodied in a proposed convention on the transfer of dual-use technology. Rather than denying technology, participants in the convention adopt a degree of transparency regarding both the transfer and the application of dual-use goods and technologies that induces the industry to behave in ways that conform to the norms of the mixed regulatory regime. Although the regime does provide for sanctions against nonparticipants, it recognizes the limitations of sanctions and instead assigns an important role to the international financial institutions to provide incentives that promote compliance.

The conclusion suggests a number of policy initiatives for global public policy. The world economy consists of a growing number of corporate networks. The current state of global governance, however, resembles at best a loose set of cross-national policy patchworks, conspicuous for their missing links and unnecessary overlaps. If global public policy is to become a viable alternative to interventionism, governments need to ensure that these patchworks evolve into networks of governance. The conclusion then takes a broader look at the likely impact of globalization on the international system. Given the still-limited reach of globalization, international relations at the end of the twentieth century are characterized by the coexistence of interdependence and globalization. Combining the two in a meaningful and constructive way will be the central challenge of international relations in the coming years, with wide-ranging repercussions on concepts such as international security—both its meaning and the institutions that provide it.

CHAPTER 1

Globalization of Economic Activity: Definition, Sources, Measurement, and Limits

THE ANALYSIS in this chapter focuses on the economic dimension of globalization—the globalization of economic activity.[1] Use of the term *globalization* has experienced explosive growth,[2] yet it is seldom defined. The words *interdependence* and *globalization* are often used interchangeably, and we have yet to determine the distinguishing features of globalization that differentiate it from interdependence.[3] This chapter defines the concept of globalization, identifies its sources, and provides an empirical overview.

Definition and Sources

The widespread and growing interest in globalization has already given rise to a number of different definitions and a number of different approaches to its analysis.[4] From the perspective of this study, the most important element in defining globalization is that it originated as—and remains—a largely *microeconomic* process. This is in contrast to the notion of interdependence, which is conceptualized and understood mostly in *macroeconomic* terms.[5] Globalization finds its origin in the changing pattern of " . . . transborder operations of firms undertaken to organise their development, production, sourcing, marketing and financing activities."[6] Heightened competition at home and abroad has led not

CHAPTER 2

Globalization and Public Policy: An Analytical Framework

THIS CHAPTER develops a conceptual framework that links globalization and public policymaking. It is probably fair to say that the perception is widespread among policymakers and the general public that globalization has weakened the sovereignty of governments. Indeed, some have gone so far as to state that globalization will lead to the disappearance of states as primary organizing actors in the international system.[1] Given the powerful role that the nation-state has played in organizing social, economic, political, cultural, and other activities within its borders ever since the Industrial Revolution, the implications of such a withering away of the state, should it come to pass, would be profound to say the least. It is therefore inconceivable that states and governments will simply disappear from the landscape of politics in general, and of international relations in particular. States are not "up for grabs." After all, no viable alternative institutional form to organize contemporary political life has yet been put forward, however inefficient and ineffective the current form may have become.[2]

Yet some would argue that the significance of states relative to that of other social organizations such as multinational enterprises, nongovernmental organizations, and international organizations has been declining as a result of interdependence and globalization, leading to considerable tension between state and nonstate actors.[3] Others have taken the opposite tack, suggesting that the metaphor of a powerless state is a myth and

a convenient policy tool for politicians, left and right, seeking to justify politically difficult adjustments. As evidence that the state remains a powerful force, they point to the considerable and rising share of government spending as a percentage of GDP among the established industrial countries.[4]

Such a perspective, however, confuses the issue at hand. The state, by virtue of its formal powers, can raise taxes and increase spending and thus increase its weight in the national economy. But this by no means implies that its ability to conduct public policy for the economy and society at large has remained the same. On the contrary, it is an indication that, in order to maintain their operational capacity and fulfill their mandate to provide public goods and act in the public interest, governments in an increasingly open world economy need more resources rather than fewer.[5]

A more interesting and, from a policy perspective, more promising question is how states and governments might react to the phenomenon of globalization and any potential challenge to their sovereignty arising from it. Just how does globalization challenge a government's sovereignty? How, if at all, does that challenge differ from the challenge of economic interdependence, which is also widely considered to dilute sovereignty? Will states—which, next to markets, remain by far the most powerful form of social organization in the modern world—resist being swept aside by globalization? Do governments have different options in responding to globalization? What are those options, how do they differ, and what will be their consequences? And if states were to disappear in the long run, what, if anything, would replace them?

Clearly, national governments will have great influence over the process by which tensions between public policies and globalization are resolved. Prior choices about how to organize and institutionalize political life limit the options available in the medium term. Thus, unlike a purely utilitarian or functionalist perspective, which would predict a withering away of the state, a more realistic scenario posits that the implications of globalization for public policymaking—whatever the outcome—will be path-dependent and thus mediated by the primary form of political organization in the world today: the modern territorial and democratic state.[6]

Following from the empirical discussion in chapter 1, the analytical framework developed here also draws a distinction between interdependence and globalization. At the root of the distinction lies a differentiation between *external* and *internal sovereignty*. Both are relational concepts. But whereas the former focuses on a state's external environment and characterizes relations among states within the international system, the latter depicts a state's setting within its own territory, characterizing, for example, relations between a government and its citizens, the economy, or other, more narrowly defined groups and institutions. From the perspective of this study, public policy is defined as the principal instrument by which governments operationalize internal sovereignty both in a constitutive and in an executive sense.

Challenges to a state's external sovereignty have of course been the central focus in the study of international relations. So far the same cannot be said of internal sovereignty, which has remained the focus of students of domestic politics. The globalization of industrial activity calls this conventional division of labor into question and suggests that the concept of internal sovereignty will become a central theme of the study of world political economy. The globalization of industry presents a fundamental challenge to states' ability to exercise internal sovereignty. Among other things this is reflected in the fact that, increasingly, what are conventionally considered domestic policy issues, that is, matters of internal sovereignty, are being drawn into or reappear in discussion and deliberations on matters of foreign policy. When Theodore J. Lowi wrote his seminal article in the late 1960s, categorizing public policy into three functional areas, he stated that he did not include foreign policy in his categories because "in many ways it is not part of the same universe."[7] Such a rigid separation may have been possible at the time, but it is no longer possible today. Contemporary theories of international relations do not draw a distinction between internal and external sovereignty. As a result, these theories fail to appreciate the nature of the transformation that globalization entails for the international system, and in particular for the interests and motivation of its primary actors, the world's nation-states.

Interdependence: Challenges to External Sovereignty

The study of the increasing interdependence of national economies and the associated emergence of a world economy has become one of the core areas of research in the field of international relations. The popularity of interdependence as an analytical concept increased considerably with the publication of *Power and Interdependence* by Robert Keohane and

Joseph Nye Jr.[8] They coined the term *complex interdependence* to characterize a condition in which independent states are connected by an increasing number of channels—political, social, economic, cultural, and others. They and other authors argued that complex interdependence led to a weakening of security issues, which had been the dominant set of issues defining the relationships among states in the international system.

Much has been written since then about complex interdependence, and the concept has been refined and even further redefined.[9] The central proposition, however, has remained the same: interdependence, or mutual dependence, implies sensitivity or vulnerability to an external force.[10] The units to be studied when examining and measuring interdependence are territorially bound, sovereign nation-states. International interdependence thus denotes a condition of mutual sensitivity and vulnerability among states in the international system. From the perspective of each state, the source of this sensitivity and vulnerability is *external*.

As discussed in the previous chapter, *economic* interdependence is characterized by an increasing flow of goods, services, and capital across borders. This increased flow is due to variations in countries' resource endowments, such as capital, labor, and natural resources, and differences in countries' stage of industrialization, among other factors. All these factors lead to an increasing international specialization and division of labor among national economies, which is then reflected in the pattern and composition of international trade and finance.

However, despite this expanded flow of goods, services, and capital across borders, national frameworks for policymaking under conditions of interdependence remain for the most part separate from the international arena. In other words, the increased interaction of national economies due to rising specialization leads to heightened interdependence, or, as is often argued, simply dependence, yet national governments remain the principal center of political and economic power as well as the locus of decisionmaking. Economic events in other countries do not have a direct and immediate impact on the domestic economy but are filtered through a set of policy boundaries, the effectiveness of which begins at, but does not reach beyond, the territory of the domestic economy.

It is helpful to introduce two distinctions that are often overlooked when considering the implications of interdependence on sovereignty. First, although it may be implicitly assumed, it is seldom spelled out that interdependence challenges not de jure or legal sovereignty, but de facto or operational sovereignty. In other words, it is not the legal concept of sovereignty that is being challenged, but the ability of states to practice that concept in the daily affairs of politics.[11] This distinction is important. If interdependence were to challenge the legal sovereignty of states, it would also by definition challenge the notion that the international system is anarchic (legal sovereignty being the basis for anarchy), a condition that lies at the heart of the dominant schools in international relations: realism and liberalism (these are discussed further below).

Second, and more important, it is helpful to distinguish between an internal and an external dimension of sovereignty. Accordingly, sovereignty "combines a description of attributes with various emotive concerns for or against limitations on the *internal* and *external* discretion of the state."[12] Hedley Bull puts it succinctly in *The Anarchical Society*: "On the one hand, states assert, in relation to this territory and population, what might be called internal sovereignty, which means supremacy over all other authorities within that territory and population. On the other hand, they assert what might be called external sovereignty, by which is meant not supremacy but independence of outside authorities."[13] In each case, as John Ruggie has put it, "it [sovereignty] signifies a form of legitimation that pertains to a system of relations.[14] The concept of sovereignty did not start out with this double meaning attached to it. Rather, the term originated from the need to justify "the king being the master of his new modern kingdom, absolute internally" and only later became "the justification of equality of such sovereigns in the international community . . . a theory of sovereign states."[15] Going back to the fourteenth century, the concept almost exclusively referred to the internal dimension and initially served as a form of legitimation of central state authority against competing domestic claimants.[16]

Later this internal dimension also figured prominently in Max Weber's definition of the state as enjoying a monopoly of the legitimate use of force over a given territory and population.[17] It came to refer to a central legal and administrative structure, as well as its decisionmaking process, that forms a polity which defines a network of institutional ties, behavioral regularities, and values that bind together public and private actors, who participate in implementing authoritative decisions.[18] Put slightly differently, internal sovereignty refers to the formulation, implementation, and maintenance of a legal, economic, political, and social order that allows individuals to peacefully coexist and interact in a relatively predictable environment.

Over the years, the concept of internal sovereignty evolved into constitutional, democratic governance. "Subjects" became "citizens," and as far as internal sovereignty is concerned, the concepts of citizenship and inclusiveness became central constitutive elements in shaping a state's identity. Internal sovereignty came to describe the relationship between a democratically elected government and society at large. Modern internal sovereignty refers to popular sovereignty. Internal sovereignty is bestowed upon the "rulers" at regular intervals through the electoral process and is thereafter subject to pluralistic and/or corporate structures of decisionmaking. As will be shown below, these links among internal sovereignty, democracy, and inclusive plurality are of great importance when analyzing the relationship between globalization and public policy.

In operational terms, internal sovereignty in today's modern democracy means the ability of a government to formulate, implement, and manage public policy. Thus, in terms of this inquiry, which focuses on the regulatory and rule-making dimension of public policymaking, governments exercise internal sovereignty when they make laws and regulations, decide on the best and most effective ways to implement those laws and regulations, and monitor compliance with them. A threat to a country's operational internal sovereignty implies a threat to its ability to conduct public policy. With respect to the economy, the legal dimension of internal sovereignty becomes operational when governments collect taxes or regulate private sector activities, assuming that the boundaries that define the relationship between the public and the private sector are both stable and symmetric.

The external dimension of the concept of sovereignty goes back to Thomas Hobbes. In contrast to internal sovereignty, external sovereignty implies the absence of a supreme authority and therefore the independence of states in the international system. External sovereignty is the logical consequence of Hobbes' position that there is no security in domestic anarchy. Thus Hobbes solved the problem of domestic anarchy by "exporting" it to the international system. External sovereignty is the central constitutive rule of the international system.[19] States are mutually exclusive and disjointed and follow the principle of self-help.[20] Identity formation by states (such as the development of interests, beliefs, and expectations) in the presence of anarchy is primarily concerned with the maintenance of their own security. The international system is competitive and individualistic, and security in the absence of central rule is the responsibility of each country individually.[21] External economic sovereignty is operationalized, for example, when countries collect tariffs or devalue or revalue their currencies.

It can now be seen that the two concepts of sovereignty are closely related. The rationale for external sovereignty would not exist in the absence of internal sovereignty. Indeed, it is unlikely that a state could exist for long relying solely on external sovereignty.[22] Suffice it to say here that, given the nature of the origin of external sovereignty, any threat to it would ultimately also affect its internal counterpart. Similarly, a sustained challenge to a country's internal sovereignty will eventually affect its external sovereignty.

As currently conceptualized, territoriality is central to both notions of sovereignty. External sovereignty is based on the principle of mutual exclusion, and it is this principle that defines territoriality in the international system.[23] With a few exceptions, such as the global commons, the international system is fully determined. As far as internal sovereignty is concerned, the assertion of final authority within a given territory is the very basis for its existence and legitimacy as well as its ability to be inclusive by generating a sense of identity and belonging.

But even though external and internal sovereignty are closely related and rely on the principle of territoriality as a common and defining characteristic, it is important to keep in mind that they are diametrically opposed, with respect to both the principles by which they operate and the purpose for which they came into existence. Any attempt by a single state to establish ultimate authority in the international system will be and always has been fiercely contested by others. But at home a government's authority is supreme and largely uncontested. Second, although states interact internationally with each other on the basis of mutually respected exclusion, inclusiveness is essential for both the effectiveness and the legitimacy of a government domestically. Third, whereas domestically the identity or purpose of government is to represent the collective interest, or the common or public good, internationally states need to fend for their own individual interests. Fourth, as a relational concept, external sovereignty refers to functional equivalents, namely, states, whereas internal sovereignty refers to functional opposites, namely, the public and the private domains. Fifth, the common attribute of territoriality individuates in the international system, but spatially delineates a collective at the domestic level. Given these two different roles or collective meanings attached to the two forms of sovereignty, it follows that states have a dual identity derived from their differing institutional roles

at the domestic and the international level. Each of these roles generates different sets of interests and expectations, responding to a different environment and different actors. These roles have been kept separate even under conditions of interdependence.[24]

One of the major theoretical debates of the last decade between realists and liberals in the field of international relations has revolved around the concept of interdependence, in particular its meaning and significance for the interests, and subsequently, the behavior of states in the international political and economic system.[25] At the risk of oversimplifying this ongoing discussion, the two positions can be described as follows. Realists, or neorealists as they have been called in the most recent round of the debate, maintain that states' interests and behavior in the international system are shaped by the system's *structure*, which is characterized by the absence of a central power. The organizing principle is anarchy, which promotes competition and conflict among states and restrains their desire to cooperate with other states, even when there is a clear recognition that they have joint interests.[26] Liberals or neoliberals, on the other hand, while recognizing and even accepting the inevitability of the anarchic structure of the international system, argue that *process* can under certain circumstances lead to cooperation among states. ("Process" here refers to interaction among states, which allows for learning by them—that is, by policymakers and bureaucrats—as a result of that interaction.) In addition, the neoliberal perspective attributes to international institutions the ability to facilitate interaction and provide an environment conducive to both learning and reciprocity among states.[27]

In liberal theorizing, states seek to maximize absolute gains in the international system. That other states might gain as well is not an impediment to cooperation. The major impediment is cheating, which results in free riding in the international system.[28] Realists disagree, arguing that states do worry about the gains of other states. For realists, states perceive gains in relative terms: a state is unlikely to cooperate if another state is likely to gain more than it does, even if the first state would also benefit.[29] As a result, international institutions cannot have the mediating and facilitating effect on cooperation that liberals claim they do, and in a neorealist view of the international system one is likely to witness far less cooperation among states than the neoliberal approach would predict.

Yet as much as these two theoretical schools may differ on states' responses to increased interdependence, and thus on the promise of international cooperation and the role of institutions in facilitating cooperation, their approaches also—and this is central to the analysis—have a number of fundamental and important methodological and conceptual commonalities. Most important, both schools take a "rationalist" approach to international relations, which implies that the identities and interests of states are predetermined exogenously and cannot change. Another shared concept is that states are unitary, self-interested actors coexisting in an anarchic environment. Hence, although the two schools differ on how states behave in an anarchic environment, they do not differ on the fundamental interests and identities of states in such an environment.[30]

This theoretical correspondence of neorealist and neoliberal views of states' interests, identities, and their anarchic surroundings also translates into a shared understanding of the nature and purpose of sovereignty in the international system, and how sovereignty is affected by economic interdependence. For both schools the origin of the challenge to a state's operational sovereignty is considered external, or "systemic," as it is often called. Interdependence describes the sensitivity of one nation to events occurring in another, and vice versa. The dynamic forces, the external pressures that states experience as a result of interdependence, originate in the international system, which is composed of other states. To what degree and in what form these external forces subsequently get refracted at national borders and are filtered into the domestic system—in other words, how vulnerable states are and how they respond to this vulnerability—is a source of dispute between the two schools.

Neoliberals, again, emphasize the absolute gains that can be derived from cooperation.[31] In the realm of economic interdependence, those gains are said to be achieved by reducing tariff barriers and capital controls—a reduction in the external dimension of sovereignty—in order to facilitate the free flow of goods and services so that intercountry specialization based on the principle of comparative advantage can be furthered. If common ground for a reduction of external barriers between two or more countries can be established, there is a basis for cooperation.

Cooperation will succeed and the gains from increased economic interdependence will be realized, in the neoliberal view, if other states do not cheat on previously agreed-upon arrangements to lower external barriers. Such an agreement to reduce and thus limit external sovereignty is

rationalized by the principles of nondiscrimination and reciprocity—in other words, by a comparable reduction in the external sovereignty of all other states that are party to the agreement. Institutionalized forms of international cooperation are often referred to as international regimes, which are defined rather broadly as "sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations."[32]

Thus neoliberals acknowledge the neorealist claim that states compete in an anarchic international system, but suggest that they do so in a cooperative and reciprocal fashion, which alters their perception of risk and changes their incentive structure by reducing uncertainty, providing information, and lowering transaction costs. To the question of whether states do or do not lose external sovereignty in this process, the neoliberal answer would be "both." They do lose external sovereignty in absolute terms as economic borders are lowered, but they do not lose external sovereignty relative to other states, which lower their borders likewise, in line with the principle of reciprocity.[33] In substantive terms, this process, which will be called *cooperative competition,* is embedded in international regimes and evolves from each country's dominant domestic private sector coalitions, whose interests are projected by governments into international negotiations and the multilateral agreements that emerge from them.[34] Thus governments under conditions of cooperative competition do not necessarily represent the general public interest, but often only the dominant private sector interests in the international system, ensuring that those interests can be addressed once an agreement has been struck. This applies even to such cases as free trade, which, contrary to a widespread perception, is not in itself a public good according to the standard Samuelsonian definition of nonexcludability and joint supply.[35]

Neorealists, on the other hand, argue that the promise of absolute gains, although a necessary condition for cooperation, is not a sufficient one.[36] For these realists what ultimately determines whether or not states cooperate with other states is the relative gains to each, that is, how cooperation affects each state's position in the international system vis-à-vis other states. Because not all states can be relative gainers, realists argue, cooperation is unlikely to occur, and when it does is highly unstable and short-lived. For realists the international system is characterized by what is called here *adversarial competition,* which they argue is the only way to preserve external sovereignty.

Both schools acknowledge that states are structural and functional equals that compete in the international system and pursue similar interests. However, the terms on which that competition takes place and the ways in which states respond to a challenge to their external sovereignty vary. Neorealists see states as primarily adversarial, reluctant to concede external sovereignty. Neoliberals argue that states will cooperate if the potential joint gains resulting from greater economic interdependence can be realized, even though in absolute terms they will have to concede some of their external sovereignty. But while the two schools differ on the outcome of state interaction in the international system, they do not differ on the source. Both explain the success or failure of cooperation by pointing to external developments: changes in the position or behavior of other states in the international system.

This brief review sets the stage for a discussion of globalization and its implications for sovereignty and public policy. However, one cannot resist pointing to the empirical evidence of the world economy, which seems to confirm that individual governments, in relations to date involving both the real and the financial sectors, have by and large tended to follow a strategy of cooperative competition. They have relinquished some of their external sovereignty in absolute terms, while at the same time using international regimes to ensure that they do not lose external sovereignty in relative terms. Of course, this is not to say that adversarial competition has vanished from the field of international relations. Adversarial competition remains a policy option that states have on many occasions threatened to use, and in some cases have used, when cooperative competition has failed.

Globalization: Challenges to Internal Sovereignty

As was stated in the introduction, if there is no formal difference between interdependence and globalization, governments have little need or incentive to reassess their own role in view of globalization, or to reassess the purpose and principles of the institutions that have governed the world economy since the end of World War II. However, if such a distinction can be drawn, it provides the conceptual basis for a reassessment of the role of government and governance in an emerging global economy.

Chapter 1 described the characteristic features of globalization from

an empirical perspective. Based on the discussion in the previous section, it is now possible to draw a formal, analytical distinction.[37] According to one definition, globalization in its pure form is a process that subsumes and rearticulates national economies into the global economy through cross-national processes and transactions. These processes and transactions take on an autonomous role in a consolidated global marketplace for production, distribution, and consumption. According to this view, the global economy dominates national economies existing within it.[38] Although certainly helpful for comprehending the fundamental and historic transformation that the world political economy is undergoing, such broad macrostructural definitions do not capture the central difference between globalization and interdependence. Nor are they necessarily specific enough to allow for a comprehensive examination of the policy implications that globalization may entail for policymakers.

It was shown in chapter 1 that globalization is an industry-level, microeconomic phenomenon. Cooperative competition among governments during the 1960s and 1970s—and its outcomes, liberalization and cross-border deregulation—were important preconditions for the strategic corporate decisions that now drive the geographic expansion of foreign direct investment and the rising incidence of intrafirm trade, international sourcing, and interfirm collaborative agreements. But increasing interdependence alone does not capture this process. Indeed, unlike in the case of interdependence, governments for the most part have not yet become involved in the dynamics of globalization. Recall that globalization was defined as a strategic decision to divide a growing number of functional aspects of the product life cycle, including R&D, production, marketing, and even disposal of a product, into different segments across a variety of structurally similar national economies, and that this decision often involves the internalization or quasi internalization into a single corporate entity of activities formerly conducted as market transactions across two distinct firms in distinct national economies. As an economic dynamic, therefore, globalization differs from interdependence in that it subsumes or internalizes into its own institutional structure economic activities that previously took place between national markets, that is, between distinct economic *and* political units. For a global as opposed to an international firm, foreign presence is no longer one of several elements in determining the firm's competitive advantage; it has become a precondition for participation in a particular industrial sector. Globalization has become an intrinsic structural characteristic of an industry.[39]

As national borders no longer encompass sufficient territory to function as self-contained markets for global companies, the spatial structure and dynamics that delineate the geography of private sector economic activities are becoming decoupled from the territorial structure and dynamics that define political geography, that is, the territorially bound nation-state and its power of decisionmaking within the economy. Territoriality, the defining characteristic of internal and external sovereignty, becomes "unbundled."[40] Whereas the political geography that defines markets continues to be structured by mutual exclusion, the economic geography on the basis of which these markets function has become increasingly inclusive, defying the territorially fixed nature of the nation-state by creating its own, nonterritorial space. Keeping in mind the geographic and sectoral limitations of globalization discussed in chapter 1, national boundaries to an increasing degree no longer mediate market exchanges but instead merely register internal corporate flows. These off-market transactions are often misleadingly treated as exchanges in such conventional measures as trade statistics and foreign exchange rates. To be sure, the management of interdependence was an important precursor to this development, but interdependence no longer adequately describes the structure of the international system or the challenges that emanate from it.

Quantitatively, this inadequacy of national markets manifests itself in the various empirical indicators of globalization examined in chapter 1. In the financial services industry it is probably best reflected in the fact that the financial intermediation of both credit and, more recently, market risk no longer takes place within national financial markets, but instead relies on a much broader and more fluid geographic space. The increasingly widespread phenomenon of parallel derivative markets is probably the most vivid example. The changing composition of international trade—caused by the rising importance of intrafirm trade and long-term supplier relationships, or the fact that global sales of the affiliates of multinationals have for some time exceeded world exports—reflects the increasing disjuncture between the economic geography of globalization and the political geography of a world economy structured by nation-states.

Qualitatively, this disjuncture, or mismatch, between political and economic geography does not challenge the external sovereignty of

states. It cannot. Rather, by altering the spatial relationship between the private and the public sector, global corporate networks challenge the internal sovereignty of states. Specifically, since the organizational logic of globalization induces corporations to seek the fusion of multiple, formerly segmented national markets into a single whole, it generates an economic geography that subsumes multiple political geographies. As a result, a government no longer has a monopoly of legitimate power over the territory within which corporations organize themselves. The greater the mismatch between political and economic geography, the more difficult it will be for national governments to act in an inclusive manner, allowing individuals to coexist and interact in a relatively predictable environment. This leads to the heightened perception of risk and insecurity widely observed in our societies.

For example, a government's ability to provide such security for economic activity depends crucially on access to a constant stream of information about the activity of economic actors—a stream that is not always easy to maintain. Information asymmetries have always been one reason why policymakers find it difficult to keep up with the changing nature of the marketplace. But globalization has led to a sharp increase in these asymmetries, making it almost impossible for governments to maintain even a minimum amount of crucial information.[41] Moreover, as far as regulatory and supervisory policies are concerned, globalization has led to an acceleration of the regulatory dialectic, in which public and private actors engage in a continuous contest, the former trying to constrain the latter while the latter tries to escape those constraints. This dialectic not only is fiscally wasteful but rarely achieves its goal. Similarly, as globalization progresses, governments will find it increasingly difficult to assess and collect taxes, since they lack crucial information about the activity of those they seek to tax.

In other words, the unbundling of political and economic geography brought about by globalization has created a structural imbalance, and possibly even a disjuncture, between the public and the private spheres of society. Governments and governance, which continue to be bounded by territoriality, can no longer project their policymaking capacity over the territory within which a global industry (on the supply side) and, to an increasing degree, a global community of consumers (on the demand side) operate.[42] Globalization not only integrates along one dimension, the economic or private; it also fragments along another, the political or public.

This is not to say that private sector actors necessarily and always make a deliberate effort to circumvent and outrace government efforts to control them. Rather, each geography, the economic and the political, follows a set of fundamentally different operational logics. Political systems, at least in their contemporary form as nation-states, are boundary-maintaining systems. Indeed, their legitimacy is derived from their ability to maintain boundaries. Markets, although dependent for their creation on political power and local economic networks, do not depend, once in operation, on the presence of territorial boundaries.[43] Given the expansive nature of globalization, the spatial symmetry between the public and the private is disappearing. From a historical perspective this raises a number of important questions about the long-term future of the nation-state. After all, it was precisely the superior ability of the nation-state to establish internal sovereignty—to consolidate the public and private spheres into a single territorial entity—that allowed it to outmaneuver institutional and organizational competitors such as city-states and city-leagues in the organization of political and economic life at the end of the feudal era.[44] The concluding chapter of this study will address this issue at greater length.

At this point it is important to recall the earlier distinction between legal and operational sovereignty. Like interdependence, globalization does not and cannot in any way challenge the *legal* internal sovereignty of a government. Globalization challenges internal *operational* sovereignty, and it is important for the subsequent discussion to keep this distinction in mind. Thus, just as states became increasingly sensitive and vulnerable to the actions of other states as increasing interdependence weakened their external operational sovereignty, so their internal operational sovereignty is being undermined by globalization, as territorially bounded governments can no longer project their power and policymaking capacity over the territory within which a global industry operates.[45]

Recall that the empirical examination of globalization in chapter 1 showed that the globalization of industry (financial services and manufacturing alike) is not necessarily equivalent to the globalization of the market economy. From the previous analysis of the divergent paths of political and economic geographies, this point can now be made at a more formal and general level. One can only confuse globalization with the rise of the global market economy if one understands a market economy (national, regional, or global) as an almost idealized arrangement in which rational, self-interested economic agents interact free of any constraints, political but also legal or of some other form, and are

minimally affected by social relations, their history, traditions, culture, or other factors. In this atomized, undersocialized, and depoliticized conception of human action, the market economy and its geography would be a separate, differentiated sphere of modern society, unrelated to the broader historical, political, and social environment and their geographies, in which the market economy is embedded.[46] Economic rationality would prevail over political, social, and judicial rationality.

Notwithstanding the fact that economic rationality is an essential component of a market economy, the latter is of course more than a loosely structured agglomeration of individual economic actors freely expressing their preferences in pursuit of their individual or private interests, generating Pareto-superior or even Pareto-optimal outcomes for themselves. A market economy is a complex organization, based not only on the interaction of individual economic preferences but also on the presence of a collective or public interest that relies on relatively stable social relationships and patterns of behavior, legal norms and mechanisms, political forces and institutions, and, increasingly, ecological and resource constraints. All of these interact in a structured manner to produce the relatively consistent behavior characteristic of any large institution. Thus a market economy is a form of social organization—indeed it is the *principal* form of social organization that shapes industrial democracies. It is a highly complex system that forms a social whole but functions through a network of constituent parts.

It is true that economic interactions are the most visible of these constituent parts and the most closely associated with the wealth-generating potential of market exchange, that is, the pursuit of private interests. Economic interactions are the source of the spontaneity for which markets are well known. But that wealth-generating potential would not always be utilized, and indeed would be at high risk and would often fail, were it not for a broad set of legal and administrative parameters and a variety of social norms that give market economies a certain constructive character—a foundation, a collective or public good, that allows the market economy to perform its integrative function. For example, the institutions of a market economy and the transactions undertaken within them depend on the presence of trust—a collective good—which market processes themselves cannot provide.[47] The social organization of trust is thus an important constituent element of a market economy and has to be developed by means other than economic exchange. If anything, it should be a precondition of economic exchange.

Markets are also firmly embedded in a network of organizations governed by legally binding administrative rules and regulations, which in turn are shaped by political forces. At the macrostructural level this network of organizations ensures the smooth and efficient interaction of participants in a market, and when necessary it employs legal means to enforce certain behaviors. At the microstructural level organizations often perform the function of aggregating and intermediating the interests of persons and groups in the market, and representing these interests to policymakers. Chambers of commerce, labor unions, trade and business associations, and consumer groups are all vital elements of a modern market economy.

Thus the risk associated with the spontaneity of economic exchange and the pursuit of private interests would be too great without some constructive foundation and a stabilizing framework that can provide collective goods and meet the public interest. Similarly, the constructive foundation and the stability that these collective goods create would be of little tangible value unless one could point to the wealth and income generated by the spontaneous interaction of individual economic actors pursuing their individual interests. Societies can place too much emphasis on either of these constituent elements. Too much emphasis on the constructive aspects of a market economy is likely to stifle its dynamism, while an overemphasis on spontaneity can turn dynamism into turbulence and chaos. Managing such a complex organization and its constituent parts, that is, deciding which issues will be resolved by individual choice and decisionmaking and to what degree (the market being the principal mechanism), and which should be resolved by collective choice and decisionmaking, balancing public and private interests, and to what degree, is what public policymaking at the national level is all about. It presumes the ability of a government to exercise internal sovereignty.[48]

Following from the above, the unbundling of the political (legal, social, cultural) and economic geographies brought about by globalization has created an imbalance and possibly even a disjuncture between the two central constituent spheres of the market economy. Since the operational capacity of governments to exercise internal sovereignty depends on considerable correspondence between the two spheres, globalization has severely weakened the ability of governments to provide public goods and act in the public interest. Moreover, as has already been discussed, in many countries today sovereignty, in particular its internal dimension, is popular, legitimized at regular intervals through the elec-

toral process. As a result, any threat to a government's internal operational sovereignty implies, by definition, a threat to the effectiveness of democracy itself. In other words, although individuals may exercise their legal right to vote, the power or influence of that vote in shaping public policy has decreased with the decline in operational internal sovereignty and will continue to do so. Ultimately, a persistent weakness and failure of internal sovereignty, therefore, will lead to a questioning of the institutions and processes of democracy itself.

Although this dynamic is certainly not the only explanation for the exhaustion of democracy and the declining trust in institutions of governance and political leaders in many countries, it certainly should be considered an important contributing factor.[49] In addition, it explains the increasing popular resentment against deeper economic integration, which ultimately threatens the process of globalization itself, as nationalism and the politics of identity provide a simplistic but easy, and therefore powerful, response to a complex, historic transformation of the economic (although not yet the political) landscape in which industrial societies coexist. In the words of one commentator, "Too much democracy kills the market, because the people, or an authority acting in their name, take all the decisions collectively, leaving nothing to the individual. But too much market may also kill democracy. If every choice is left to the market, the right to vote becomes meaningless, because the people you elect have no power to change anything."[50]

Taken together, then, the globalization of industry presents a challenge to the capacity of governments to govern. But this challenge to their ability to conduct public policy is not an external challenge. It does not emanate from another state, as usually conceptualized in the standard approaches to the study of international relations, and in particular of international interdependence, which focuses on external sovereignty.[51] Rather, the challenge comes from within each country, as economic networks (legal and illegal alike) increasingly operate in a nonterritorial functional space that defies individual territorialities and thus internal sovereignties. Although this space has no center politically, it is highly integrated at the microeconomic level, creating what has been called a "*space-of-flows* operating in real time which exists alongside the *space-of-places*," also referred to as national but interdependent economies.[52] This space-of-flows, a growing part of which consists of cyberflows as electronic finance and commerce continue to gain in importance, is characterized by a set of mutually reinforcing cross-national networks pertaining to technology transfer, the processing and dissemination of knowledge and information, financial intermediation, transport, and, last but not least, research and development. These networks form the backbone of global corporate operations and thus of an emerging global manufacturing and services economy. Accordingly, the global economy is not located in another place or at a different level; it *is* another place.[53] Thus, although national boundaries have remained points of contact as well as points of separation between political systems, they no longer perform those functions in the strategies of global corporations or the consumption patterns of individuals, notwithstanding that there might be other factors that constrain their spatial horizon. Finally, given the close linkage between internal sovereignty and democracy, globalization not only undermines the effectiveness and efficiency of governments but weakens the legitimacy of democratic institutions and the democratic process itself.

How are governments to respond to this challenge? As the next chapter will show, they have a number of options. Global public policy, the pooling and collective operationalization of internal sovereignty, is one such option. But for global public policy to succeed, national governments have to agree to commit themselves to an unprecedented amount of cooperation. It is unprecedented because, contrary to the neoliberal vision of cooperative competition, where states lose some of their external sovereignty in absolute terms, there is no "space" for external sovereignty if global public policy is to succeed. More specifically, given the causal relationship between the two dimensions of sovereignty, external sovereignty ceases to exist among those states in those functional domains in which they agree to operationalize internal sovereignty collectively.

This need for cooperation among governments on a scale and depth not yet witnessed represents the central analytical challenge for global public policy and brings the discussion back to the debate between realists and liberals over the prospects for cooperation in the international system. However, given the focus of both on external sovereignty, neither realism nor liberalism can be very helpful in examining the policy implications of globalization, nor can either predict the prospects for cooperation under conditions of globalization. Indeed, the fact that the globalization of industry has transformed internal sovereignty from a domestic into a global policy issue has profound implications for this debate. As long as the international system was characterized solely by the dynamics of interdependence, the preservation of external sovereignty was the dominant and singular interest of states in the international system, and shaped their identity. And even though neoliberals argued that the nature of the ensuing competition among states was likely to be cooperative, they had to concede the causal powers of anarchy to the neorealists, as the interests of states were exogenously given and could not change.[54]

Globalization alters this one-dimensional constellation of state interests and identity in the international system. It introduces the possibility of change in the formulation and subsequent administration of those interests, neither of which was possible in neorealist or neoliberal thinking. By elevating internal sovereignty to the rank of a global policy issue, the international system, and with it the collectivity of externally sovereign states, is confronted with the management and resolution of this second, equally important determinant of states' overall identity. States no longer exhibit a singular systemic identity—the preservation of external sovereignty—but have to rely on the international system to achieve internal sovereignty as well. Given that for the foreseeable future the international system will continue to be characterized by exclusiveness, and thus anarchy (primarily of course to preserve legal external sovereignty), the only way for governments to achieve inclusiveness, and thus internal sovereignty, is to pool, and thus share, internal sovereignty in those sectors in which globalization has undermined the effectiveness and efficiency of internal sovereignty at the national level.

Therefore, the anarchic structure of the international system does not necessarily cause states to compete in order to maintain their external sovereignty, but it could induce them to cooperate to realize their internal sovereignty. It follows that state interests and identities in the international system are no longer determined a priori, as suggested by the neorealist approach and conceded by neoliberals, but instead may vary (cooperative competition versus competitive cooperation) depending on the issue under consideration. Neoliberals no longer need to concede the causal properties of anarchy to the neorealists. It is true that, under conditions of interdependence, anarchy causes competition among states seeking to preserve external sovereignty. But as shown above, under conditions of globalization, anarchy would be highly detrimental to a state's ability to realize one crucial aspect, if not *the* crucial aspect, of its identity.[55]

If the deeper integration of the world economy is to continue, cooperation is the *only* way to maintain internal sovereignty. Cooperation thus becomes vital to the constitution of states, their interests, and their identities.[56] Just as competition was rational for state engagement in the international system under interdependence, so the need to cooperate motivates states' behavior under conditions of globalization. *Anarchy is no longer just the outcome of, but also the cause for state interests in the international system.* The same reasoning that led neorealists to characterize the international system as competitive (internal sovereignty cannot be achieved under conditions of anarchy at the domestic level, and therefore anarchy must be "exported") now leads to the conclusion that the international system should be cooperative, because one central dimension, a state's identity, can only be achieved collectively.[57]

What is the role of external sovereignty in such a context? Can it still have any meaning? Is there still room for anarchy in the international system? Recall from the discussion at the beginning of this chapter that the principal rationale for the existence of external sovereignty was the desire to establish internal sovereignty in a territorially fixed geographic space—the state. The concept of global public policy, however, is based on a strategy whereby some dimensions of internal sovereignty at the operational level are territorially delinked and functionally disaggregated. "Internal" thus no longer refers to territory but to the spatial extension within which global companies pursue their activities, cutting across a number of externally sovereign territories. Since "internal" no longer refers to territory, external sovereignty, as a heuristic device, loses its utility in the context of globalization.

Put differently, the purpose of external sovereignty was to ensure monopoly power over decisionmaking within a particular territory and to prevent outside interference. Its rationale was conditioned on the fact that internal sovereignty was operationalized territorially. Since internal sovereignty can no longer be achieved in a territorial context, external sovereignty becomes redundant. It has effectively lost its meaning. In fact, since external sovereignty is the central precondition for anarchy, it is to be avoided, as countries would then be unable to cooperate to achieve internal sovereignty. As will be discussed later, however, globalization remains a limited phenomenon. External sovereignty remains an appropriate conceptual tool. Even the collectivity of states that agree to pool their internal sovereignty on a particular policy issue remains externally sovereign (legally and operationally), with respect to each other in other policy domains and to third states in the same policy domain. How likely is it that countries would be willing to abandon their external operational sovereignty?[58] As will be shown in the first and last case studies, this is not as unlikely as one might at first be inclined to believe. The reason is obvious: the incentive for relinquishing external operational sovereignty is the hope of safeguarding its internal counterpart.

To sum up, the discussion on the debate between neorealists and neoliberals characterized the dynamics of interdependence as one of cooperative competition. States relying on the institutional and rule-based infrastructure of the world economy agreed to facilitate international economic exchange by reducing barriers to cross-border flows of goods, services, and capital. The behavior of states in the international system reflected the interests of the dominant domestic private sector coalitions. The goal was to enhance international economic competition, albeit in a reciprocal, that is, cooperative fashion.

Chapter 1 showed that the management of economic interdependence followed an agreed set of principles, emphasizing the reciprocal lowering of cross-border barriers to both real and financial flows. Managing economic interdependence in this way was considered an important precondition for globalization to occur. The mere presence of globalization thus confirms that cooperative competition has occurred. At the same time, however, cooperative competition has created new challenges for states, transforming their identity, interests, and thus behavior in the international system. To preserve the internal dimension of their sovereignty under conditions of globalization, states (barring other responses, which will be discussed in the next chapter) will *have* to cooperate to represent their own interests in the international system and thus preserve their own legitimacy and identity, and indeed rationalize their very existence.

In contrast to the case of interdependence, under conditions of globalization it is cooperation rather than competition that motivates states' global engagement and explains their behavior in the international system. However, given that countries differ over both what is and what is not in the public interest, as well as over how that interest can be best achieved (for more on that see chapter 3), the process or method by which states establish cooperation is likely to be on competitive terms. Whereas *cooperative competition* among states best captures the dynamics of interdependence, globalization inverts that formula and induces *competitive cooperation*. It is important to note, however, that "competition" here does not refer to the outcome of the interaction or to the type of order within which individual actors interact, but to the method or process by which a cooperative order is achieved. Thus competition here should be understood as a bargaining process, ultimately resulting in a cooperative agreement that defines global public policy, that is, the rules and procedures by which internal sovereignty is achieved and maintained in the global economy.

From a behavioral perspective, states' actions may not be all that different when they cooperate, in the case of interdependence, or compete, in the case of globalization. The crucial difference is the interests involved, their purpose, and the outcome of each process: private sector competition in the former, public sector cooperation in the latter. This change in purpose will have a profound impact. Take the case of the Bretton Woods institutions and the other international organizations originally designed to manage interdependence. Rather than promoting the progressive liberalization of cross-border economic flows, which within the established industrial economies has been quite successful, these institutions will have to address the consequences of that liberalization, following the principle of global public policy. This requires considerable change in their mandate and organization.

Given the nature of the challenge that globalization presents to national governments, it seems unlikely that they will not respond. But global public policy is not the only way in which governments can regain or maintain internal sovereignty. On the contrary, as the next chapter will demonstrate, a variety of other strategies can achieve the same goal. However, they cannot do so without jeopardizing not only continued international economic integration but indeed the entire postwar international economic order.

CHAPTER 3

Policy Responses: Matching Economic and Political Geography

IF POLICYMAKERS want to retain or regain internal operational sovereignty, they need to ensure that they can maintain or reestablish a considerable degree of symmetry between the political and economic geographies in those sectors affected by globalization. Such an adjustment is most needed where globalization has reached the point at which national public policies have lost their effectiveness and can no longer prevent market failure, or where they have become increasingly inefficient as globalization raises the marginal cost of maintaining internal sovereignty.

In principle there are three possible strategies for reestablishing congruence between political and economic geography. Two of these equate political geography with the continued territorial integrity of the nation-state and attempt to impose that same territorial definition upon the organizational logic and economic geography of corporations. These strategies will be referred to here as defensive and offensive intervention. The third strategy is global public policy. Unlike the other two strategies, global public policy is compatible with the economic geography of globalization. This will require not only considerable adjustment on the part of the national and international institutions, processes, and elites currently charged with public policymaking but also the engagement of new actors.

likely to induce foreign investment in protected markets, defying the restrictive objective of these measures. This phenomenon is likely to gain even greater importance with the conclusion of the international investment agreement currently being negotiated in the OECD.[35] To take another example, a study on the effect of U.S. antidumping policy in reducing import competition showed that the biggest winners may not be the industries that initiate the complaints, but exporters abroad who gain orders at the expense of competitors accused of dumping.[36] The same applies to offensive intervention. Thus, local content rules, discriminatory government procurement practices, and subsidies, although favoring domestic producers in the short run, will also lead foreign producers to establish local production facilities and engage in mergers, so that the nationality of a company is no longer an obstacle to access to these territorially restricted benefits.[37] Indeed, when a few years ago legislation was pending in the United States to treat foreign companies differently from U.S. companies in government research and development programs, the measure was opposed by the U.S. private sector because "narrow eligibility criteria discourage beneficial foreign investment, invite retaliation against U.S. exporters and U.S. companies doing business abroad."[38]

To sum up, all forms of defensive and offensive intervention reemphasize territoriality as an ordering principle of international relations. As such they respond only indirectly to the challenge to internal sovereignty by relying on and attributing renewed weight and importance to external sovereignty—a condition that integration has worked so hard to overcome and that, with the end of the cold war, appeared to have been secured. All these forms of intervention are at odds with globalization and will only succeed if the achievements of interdependence are undone. Thus, defensive and offensive intervention not only would halt and reverse the trend toward globalization, but would also amount to an assault on the established principles of cooperative competition and its norms and institutions, which, as discussed in chapter 2, have been and remain the cornerstones of economic interdependence. Moreover, given the limited effect that these strategies will have on the actual behavior of corporate actors, they are likely to reinforce a sense of political fragmentation, as globalization will continue to progress, worsening the paralysis of current public policies.

Yet even though these interventionist strategies cannot answer for any sustained period the challenge that globalization presents to national governments, they should not be dismissed as inoperable in a political context. They are attractive and popular, as they provide policymakers the appearance of control, while the rhetoric used in their advocacy induces a feeling of security against the declining effectiveness of internal sovereignty. And, as was shown, it is not difficult to find evidence that the use of interventionist strategies is increasing in a number of countries. Unless policymakers are given a viable alternative, governments, notwithstanding the longer-term economic and political consequences, may soon be forced to employ one or a combination of defensive and offensive interventions, as the continued loss of internal operational sovereignty not only calls their legitimacy into question but leads to a further erosion of belief in the institutions of democratic governance, and ultimately to the breakdown of the political and social consensus that internal sovereignty is supposed to uphold.

Global Public Policy

The scenario just outlined makes it all the more imperative that policymakers, the private sector, and the general public focus their attention on the third strategy, global public policy. In principle, global public policy can avoid many of the pitfalls of both forms of intervention. In practice, however, it requires a considerable adjustment on behalf of both the actors and institutions in charge of public policy, and those who have an interest and a stake in its outcome. Global public policy differs from both interventionist strategies in that it reverses the adjustment path between the two geographies by realigning the political with the economic geography. Rather than trying to force the economic geography of globalization to adjust to the political geography of interdependence, global public policy alters the political geography in a way that can both accommodate economic globalization and at the same time allow countries to continue to exercise internal sovereignty. Under these circumstances, the reach and management of internal sovereignty are no longer defined by territoriality, but rather by the spatial extension of globalization, that is, on a functional or sectoral basis. As discussed in the previous chapter, global public policy requires a qualitatively new form of cooperation among countries, as the reach of internal sovereignty is defined by the structure of global corporate networks. Given their focus on external sovereignty, neither realism nor liberalism was helpful in rationalizing this type of cooperation, as states' interests and identities in the international system now go beyond the mere defense of external sovereignty. But global public policy also raises a number of institutional and procedural challenges, which are discussed below. Most important, it will be necessary to demonstrate that the operational aspects of internal sovereignty can indeed be decoupled from territoriality, its formal legal counterpart.

One central challenge is the fact that what is and what is not in the collective or public interest often differs across countries. Hence, for global public policy to be successful, not only would participating societies have to show a willingness to cooperate in the establishment of internal sovereignty; in practice they would have to recognize and accept others' notion of the collective interest and others' definition of the public good. Given that the definition of the public space in each society is the product of a lengthy historical process dating back to at least the Industrial Revolution, and has been shaped by experiences unique to that society, sometimes reflecting cultural attributes, this is a difficult task to say the least. Moreover, different perceptions of the public's interest often result from differences in level of economic development. This needs to be taken into consideration when developing common responses to global problems that reach beyond the OECD. For example, although the industrialized countries are rightly concerned about environmental pollution at the local, regional, and global levels and rank environmental protection among the most important common goods, they cannot necessarily expect developing countries to have the same set of priorities, one of the dominant themes surrounding the negotiations at the Framework Convention on Climate Change in Kyoto.

Even if participating countries could agree on a set of policy issues that they consider to belong in the public domain, and that can only be adequately addressed at the global level, they may still differ on what action to take. Constitutional, cultural, political, intellectual, institutional, bureaucratic, scientific, and other differences and idiosyncrasies, which are often deeply historically rooted, are likely to lead different countries to prefer different strategies on a given issue.[39] Again, policy resolution may require that long-established practices of domestic public policymaking be adjusted to achieve the desired results.

These two examples give an indication of some of the impediments that policymakers are likely to encounter in their domestic environments when embarking on such an ambitious project. Global public policy is

likely to challenge deeply entrenched economic, political, and bureaucratic interests, and in other circumstances it may simply lack broader support from a society that prefers the status quo to a new environment that is still vague and often ill defined.

Implementing Global Public Policy

In considering strategies to ease the implementation of global public policy in a given industry, one approach should be dismissed right at the outset. Global public policy cannot and does not imply the establishment of a global government. Such a top-heavy, imposed construct reflects an overly simplistic adherence to the outmoded notion of territoriality and the inflexible institutions associated with it, both of which are not very relevant to the particular issues raised by globalization. A global government would be not only utopian, as it would require states to abdicate both their internal and external sovereignty in an operational *and* a formal sense, but unsustainable as well. Both from the perspective of administrative efficiency and effectiveness, and from the perspective of political legitimacy and accountability, this option is unrealistic. Rather, global public policy, if it is to succeed, has to be able to respond continuously both to the changing economic geography of globalization and to changing functional requirements. No global government could possibly meet such expectations. Global public policy must be sufficiently adaptive to respond to a process of mutual learning among states about each other's systems of public policymaking. It must also be able to tolerate some continued diversity of public policymaking among national systems, while ensuring sufficient cohesion to meet the common good in a global context.

The key to what may seem at first a contradictory policy prescription is that *governance*—a social function crucial for the operation of any market economy, whether national, regional, or global—does not have to be equated with *government*.[40] This insight provides the cornerstone for a more promising strategy for global public policy, namely, the delinking of some elements of the operational aspects of internal sovereignty (governance) from its territorial foundation (the nation-state) and its institutional and legal environment (the government), and their reapplication on a sectoral—that is, functional—basis. Such a strategy would cut across national boundaries in order to match up the political geography of an industry with its economic counterpart, defined by what chapter 2 referred to as the space-of-flows.

This delinking of sovereignty from its territorial and institutional environment relies on the notion that sovereignty in its operational form, and ultimately even in its legal form, is divisible.[41] This divisibility of sovereignty is embedded in the principle of subsidiarity, which implies that economic decisions such as levying taxes, undertaking public expenditures, and regulating the behavior of private sector actors should be made by lower-level jurisdictions unless a clear rationale can be given for assigning them to higher-level jurisdictions.[42] Subsidiarity is also firmly anchored in the U.S. Constitution and formally became part of the European Community with the conclusion of Maastricht Treaty, which established the European Union.[43] A decision to invoke subsidiarity is often a matter of political calculation, and is thus often contested. In both the United States and the European Union the ultimate judgment of the appropriate level of authority or sovereignty rests with the judiciary: with the U.S. Supreme Court and the European Court of Justice, respectively. Given that global public policy addresses the operational and not the formal dimension of internal sovereignty, the need for legal recourse in the case of global public policy is not evident but falls within the domain of "soft" international law.[44] Thus global public policy will be structured around so-called legally nonbinding international instruments. Besides requiring implementation by the participating nations individually, this puts great emphasis on two aspects of global public policy that are crucial to its success: compliance and enforcement. These will be discussed in greater detail in the case studies.

Despite the fact that subsidiarity is not only employed as a technical term but also frequently used as a political instrument, it is helpful for purposes of this study to provide a more differentiated use of this concept. This is especially the case as far as the operational dimension of internal sovereignty is concerned. The concept of subsidiarity allows a more detailed examination of the various strategies that policymakers can adopt to operationalize internal sovereignty in the space-of-flows.

For example, the option to invoke subsidiarity should be explored during all three phases of the public policymaking process: policy identification and agenda setting, policy formulation, and policy implementation. It is also possible to differentiate between *functional* and *structural subsidiarity*.[45] Thus it happens not uncommonly that, from a functional perspective, a given public policy issue, in particular in the

realm of economic regulation, is best addressed by formulating global standards, keeping in mind of course that what one calls "global" may well be not entirely so. A global approach avoids an uneven playing field and thus is an important precondition for the private sector to agree to such an arrangement. It can also help prevent regulatory arbitrage by private sector actors, which is likely to deteriorate into offensive intervention as governments face increasing great pressure to deregulate. But taking a global perspective in policy formulation does not imply that both the initial agenda setting and the subsequent policy implementation cannot be delegated to lower administrative levels—regional, national, or local. Subsidiarity here brings the policy process closer to those who have an interest in the outcome and makes use of existing bureaucratic structures and institutions. In fact, as long as formal sovereignty remains in the hands of national authorities, policy implementation will have to be located at the national or the subnational level.

To help articulate the notion that governance does not necessarily imply government, it is helpful to introduce a distinction between *vertical* and *horizontal subsidiarity*.[46] This can be achieved by using the term subsidiarity in a much broader sense. "Sub" no longer just refers to the narrow spatial context of policymaking at a lower policy level as we know it from the European Union or the Tenth Amendment to the U.S. Constitution. It is used in a functional sense and refers to any actor or institution that is in the best position to support the operationalization of internal sovereignty in the global context. In seeking to improve the legitimacy, acceptability, efficiency, and effectiveness of public policies, *vertical subsidiarity* delegates public policymaking to other public sector actors at both lower and higher levels of governance. In terms of globalization, this refers mainly to international institutions. However, this does not mean that local actors may not play an important role in enforcing and monitoring globally agreed rules and standards. Vertical subsidiarity, especially with regard to the distinction between function and structure, works both ways and provides practical guidance to the often quoted line, "Think globally, act locally." *Horizontal subsidiarity* seeks the same improvements as the vertical variant by delegating, or "outsourcing," part, but not all, of public policymaking to nonstate actors: for example, to businesses and their associations, labor groups, nongovernmental and nonprofit organizations, consumer groups, foundations, and other interested parties, or a combination thereof. These actors have a direct stake in the outcome of public policy. More important, their range of activity is not bound by a particular territory, which frees them from the constraints of territoriality in external or internal sovereignty. In addition, these actors' better information, knowledge and understanding of increasingly complex, technology-driven, and fast-changing public policy issues will generate greater acceptability and legitimacy for global public policy. Such public-private partnerships initiated by invoking horizontal subsidiarity will also produce a more efficient and effective policy process for the design and implementation of public policies for a particular global industry. Finally, horizontal subsidiarity encourages mutual learning among national public policy systems, an important precondition for achieving greater cooperation among them.

Both vertical and horizontal subsidiarity can be employed as early as the phase of *policy identification* and the setting of a policy agenda. Horizontal subsidiarity should play an important role in policy identification. A broad-based dialogue among national governments and relevant nonstate actors as well as subnational administrative units and relevant nonstate actors should be initiated to identify global policy issues of common concern. In setting the policy agenda, structural subsidiarity should be used extensively, even for issues that are global from a functional perspective, so that the dialogue can take place at both the national and the subnational level.

Later, at the stage of global public *policy formulation*, it will be necessary in many cases to develop and agree on a joint policy formula. Such a formula has to be quite detailed, for example setting specific quantitative indicators, targets, or levels. Joint policy formulation avoids creating an uneven playing field, which is important for the reasons already discussed.[47] But although policy is developed for a collective of countries, parties to the formulation process should explore the possibility of allowing a certain degree of flexibility, so that countries can retain some idiosyncratic elements of their own national approach. For the global financial services industry such functional subsidiarity has proved critical in the development of joint formulas (see chapter 4). Although such differences can create minor bumps in the playing field, other parties to the agreement should consider them an acceptable price to pay.

How and to what extent governments want to use the partnership approach and involve nonstate actors in the formulation of joint policies has to be decided on a case-by-case basis. Nonstate actors may be granted actual voting rights, for example, or may be limited to an advisory role. Whatever form it takes, their participation may lead to cross-national partnership coalitions between state and nonstate actors, or encourage the intensification of global issue coalitions. As will be shown, this can help facilitate compromise among governments by exposing bureaucratic and institutional rivalries that have little or nothing to do with the issue at hand, but can prevent the issue from being resolved.

Policy implementation is the third phase. Structural subsidiarity should be applied as widely here as during the phase of policy identification. This not only avoids unnecessary duplication of bureaucratic activities, but also allows implementation to be closer to the economic activity to be regulated, again reducing the potential for information asymmetries. The possibility that differences in national and subnational structures and mechanisms of implementation will lead to an uneven playing field cannot be excluded, however. Implementation therefore needs to be monitored and may require some adjustments to domestic public policymaking structures.

The various applications of subsidiarity mentioned above are already being practiced in some form or another, with different degrees of success. Thus vertical subsidiarity will remain a central element of global public policy as long as formal internal sovereignty remains bounded by territoriality. Many internationally agreed-upon obligations are subsequently written into domestic law. An exception is the European Union, where some aspects of formal internal sovereignty have indeed been transferred from the member states to Brussels. The dispute settlement mechanism of the WTO is another example where some elements of formal sovereignty are emerging at the global level, although with a rather broad array of escape clauses.

Horizontal subsidiarity is also practiced in the setting of international standards through the International Organization for Standardization, and in the field of international environmental cooperation. An example of the latter is the participation of both environmental groups and industry in the OECD's policy deliberations on international trade and the environment. The International Labour Organisation has long-established procedures for horizontal subsidiarity as well. It is also generally recognized that the World Bank has endorsed the partnership idea and initiated more regular contact with the broader private sector, and with nongovernmental organizations and other nonprofit communities, and has begun to include them in both policy identification and implementation. Another instance of horizontal subsidiarity, although less institutionalized, was the negotiations surrounding the global climate treaty, which culminated in the Earth Summit in Rio de Janeiro in 1992. Never before then had nonstate actors been so deeply involved in both the setting of the agenda and the negotiation of an international agreement.[48] At the same time, however, greater reliance on horizontal subsidiarity has in many instances remained more of a reactive and ad hoc policy response to increased pressure from nonstate actors. It does not yet represent the systematic and comprehensive policy response that, this study argues, economic globalization calls for and which is further developed below.

The introduction of horizontal subsidiarity during policy implementation is probably the most innovative and most controversial strategy to separate the operational aspect of internal sovereignty from its formal counterpart. Yet it could turn out to be the most promising strategy and therefore deserves greater attention. Taking again the case of regulatory policy, an extreme version of horizontal subsidiarity would amount to self-regulation. Governments would retain the monopoly of formulating regulatory policy for a particular global industry, but would delegate all implementation and enforcement of the regulations to the industry at which the policy is directed. Although possible in theory, such an arrangement is unlikely. As will be shown, a mixed regulatory strategy is more realistic. Here some, but not all, of the implementation process (data collection, monitoring, and supervision) is delegated to a regulatory organization in which both the public and the private sectors are represented. Even some enforcement and disciplinary activity could under certain circumstances be delegated to this mixed regulatory organization. The exact composition of "self" in this partly public, partly self-regulatory scheme remains to be determined. Thus which nonstate actors get involved in this scheme should be decided on a case-by-case basis. However, following the general practice of public policy, all those who have a stake in the outcome should have formal access.

Less controversial are two other forms of horizontal subsidiarity that have gained in prominence during the last few years but are still underutilized and deserve much greater attention, especially as far as the transnational dimension is concerned. The first involves the so-called third sector, which lies at the interface of the private and the public spheres, composed of institutions that are private in form but public in purpose.[49] It is not inconceivable that existing or newly created third-sector organizations could take on certain roles in global public policymaking. At a minimum they could act as mediators between opposing interests on a given functional issue. The second form involves the individual at large—the "global citizen"—who can have substantial influence over the behavior of global economic actors on both the supply and the demand side, as an investor and a consumer, respectively.

The three forms of horizontal subsidiarity just outlined are not mutually exclusive, and a combination of all three may well be the most effective and efficient form of creating new partnerships for improving global public policymaking. This is especially the case if outsourcing to nonstate actors relies to a greater degree on market or incentive-based approaches, which, as has been demonstrated in the national context, are often much more transparent and cost efficient and, most important, more effective.[50]

Horizontal Subsidiarity: A Case Study

Here it may be helpful to describe in some detail the structure and dynamics of horizontal subsidiarity. In the United States the securities industry and its regulator the Securities and Exchange Commission (SEC) have long relied on a mixed regulatory structure to monitor the activities of the National Association of Securities Dealers (NASD), the private sector organization that regulates the over-the-counter securities market.[51] The case of the NASD is particularly instructive for two reasons. First, it provides insights into the structure and mandate of an organization whose success depends critically on its ability to accommodate very large numbers of participants and transactions, to evaluate large amounts of data in a short time, and to detect fraudulent behavior—all of which the NASD does through the use of sophisticated computer technologies. Given the scope and purpose of global public policy, the ability to accommodate large numbers and detect fraudulent behavior is a necessary although not sufficient condition for any global regulatory effort. Second, the example of the NASD highlights some of the weaknesses and dangers in setting up an organization that manages under one roof both public and private interests—thus anticipating criticisms that will certainly arise in response to proposals for global public policy.

The NASD was established for the purpose of cooperating with regulators in their efforts to prevent improper transactions in the securities market.[52] Pursuant to the provisions of federal law, the NASD adopts, CHAPTER 7

Conclusion

DURING THE PAST five decades the international system was dominated by the competition of two antithetical political geographies and economic systems. The nature of this competition and the threat that it posed were such that states put an overwhelming emphasis on external sovereignty in defining their security, and the institutional and functional infrastructure that they built to address public policy issues followed from that definition. Territorial government was the logical and preferred choice to operationalize governance, both domestically and internationally. However, the cold war overshadowed other less visible, but no less important, changes in the international system. Its peaceful but sudden ending and the continued and accelerating pace of globalization have raised the management of internal sovereignty, previously relegated to domestic politics, to a transnational policy issue. This has left nation-states in a race to catch up with the changing composition of external and internal challenges that shape today's international relations.

Nevertheless, we continue to see an overemphasis on external sovereignty and its institutions, while the management of internal sovereignty in most instances remains the prisoner of territoriality. If international cooperation is to generate concrete solutions to the challenge of globalization, managing external sovereignty alone will not suffice. International cooperation must be redefined to include the administration of internal sovereignty. This need to exercise internal sovereignty in a non-

territorial setting led us to ask the question posed in the title of this book: *Governing without Government?*

There is general consensus that global government is not only utopian but also undesirable; thus it cannot be the answer. However, two recent contributions to the debate on globalization suggest two possible avenues for the future of governance in the face of globalization. One perspective sees an ever growing role of nonstate actors (corporations and nongovernmental organizations alike) and international organizations leading to a "power shift" in the international system and challenging states' traditional monopoly over matters of governance.[1] This perspective is rejected by the other one. Rather the "real new world order" does not represent "a shift away from the state—up, down, and sideways—to supra-state, sub-state, and, above all, nonstate actors" but envisions a state that is disaggregated into its functional parts (such as the executive, the legislature, courts, and independent agencies).[2] These parts "are networking with their counterparts abroad, creating a dense web of relations that constitutes a new transgovernmental order" in which the state continues to play a dominant and traditional role.[3]

This book suggested yet another perspective; one that combines the two visions outlined above. This study concludes that they actually can be mutually reinforcing. Thus for the foreseeable future governments will remain the core constituent elements of global governance. Governing the global economy *without* governments is not an option. Yet for global governance to succeed, governments will also have to enlist the active cooperation of nonstate actors. As the case study of global financial regulation showed, greater cross-national cooperation among functionally equivalent or comparable state actors plays a vital function in reducing the information asymmetries generated by globalization. Moreover, with globalization continuing to progress, policymakers will have to expand and formalize their cross-national contacts in other policy domains including transnational criminal activities, such as money laundering and global security issues as in the case of dual-use proliferation, and other public policy issues traditionally subject to territorial governance. The formation of transgovernmental networks is a necessary condition for global governance to succeed, but it is not sufficient.

The history of capital adequacy regulation showed that the creation of transgovernmental networks such as the Basle Committee alone will no longer be able to fully cope with an increasingly dynamic and heterogenous global economic environment. Rather it suggests that nonstate actors can and should play an important role not only in the formulation but also the implementation of global public policy. These actors have a direct stake in the outcome of global governance. Equally important is the fact that their range of activity is not bound by a particular territory. In addition, not only will the better information, knowledge and understanding possessed by these actors of increasingly complex, technology-driven, and fast-changing public policy issues generate greater acceptability and legitimacy of global public policy, but public-private partnerships will also produce a more efficient and effective policy process. Moreover, horizontal subsidiarity encourages mutual learning among national public policy systems and openness to change—a vital precondition for global public policy to succeed. Finally, international organizations can and should play a strong and leading role in fostering and facilitating the emergence of global public policy networks, promoting better knowledge to anticipate issues that demand global public policies, and acting as intermediaries between the public and private sectors to ensure that adequate information is available to meet global challenges.

The specific mix between state, nonstate, and multilateral actors will vary depending on the particular policy issue at hand. The structure of public-private partnerships may also change over time in response to policy failures that require corrective action or to political pressure. Indeed one can interpret the recent growth of transgovernmental links among state actors as a public (state) reaction to a real or perceived power shift toward private (nonstate) actors. Governments are collectively reasserting their role in an emerging network of global governance. These public-private dynamics rather than state-to-state interactions will have a growing importance in the global politics to come.

Undoubtedly there will be opposition to public-private partnerships. Nongovernmental organizations will continue to raise questions about the degree of trust given to the private sector in executing public functions. However, they should consider that the loss of internal operational sovereignty has already resulted in a democratic deficit, and they should recognize the new opportunities that public-private partnerships offer. The business community also will resist the intrusiveness of the necessary disclosure rules and shun the required internal adjustments, but business leaders should consider the alternative policy responses discussed in previous chapters that permit states to maintain internal sovereignty.

To preserve their legitimacy, governments will feel they have little choice but to fall back on offensive or defensive intervention or a com-

bination of both. Such strategies should not be dismissed as politically inoperable. Rather, they are attractive because they provide policymakers with the appearance of control while inducing a feeling of security in the population at large. It is no secret that the popularity of these policies has increased considerably since the early 1990s, as political opportunists in many countries have built on the widespread fear and insecurity brought on by the declining effectiveness of internal sovereignty, thus forcing governing elites on the defensive.

The medium- and longer-term consequences of these strategies, however, are rarely taken into consideration. First, neither strategy can effectively respond to globalization; these strategies can only succeed once the achievements of interdependence have been reversed. Second, both forms of interventionism reemphasize territoriality as an ordering principle of international relations, despite decades of efforts to achieve integration and the end of the cold war. But unless policymakers are given a viable alternative, governments may soon be forced to engage in defensive or offensive interventions, or both together, as the continued loss of internal operational sovereignty leads to a further erosion of the belief in the institutions of democratic governance and, ultimately, to the breakdown of the political and social consensus that internal sovereignty is supposed to uphold.

Global public policy will not necessarily erase the danger of a democratic deficit. On the contrary, by decoupling the process and practice of internal sovereignty from its territorial base, global public policy runs the risk of undermining popular sovereignty and thus the democratic character of policymaking even further. Thus it is of central importance to understand that globalization has led to a situation where democratic theory and the concept of pluralism can no longer be operationalized exclusively in the context of a territorially defined polity. Democratic governance must instead find new avenues, institutions, and instruments that reach beyond the current political geography of the nation-state. No doubt it is here that the concept of global public policy will be tested most and will need further work.[4] However, if the prospect of a democratic deficit is taken seriously, particularly by national governments, then applying the principles of subsidiarity broadly and rigorously will avoid top-heavy, centralized decisionmaking and allow individuals to participate in global public policymaking to a greater degree than they do now. This will provide an effective response to the increasing popular resentment toward deeper economic integration.

Global Compact

Keeping up with the Times

The geographic and sectoral reach of globalization remains limited. International relations at the end of the twentieth century is therefore best characterized by a coexistence of interdependence and a globalization that cuts across both countries and industrial sectors. As far as countries are concerned, globalization has come to dominate interstate relationships among established industrial nations where questions of internal sovereignty and its associated security themes have emerged as a decisive force in structuring their relations. The increasing focus on nontariff barriers in transatlantic relations, ranging from financial regulation to health, environmental, and safety standards, is a telling example. Furthermore, territorial conflict among these countries has been rendered all but impossible for now.

The same cannot yet be said about interstate relationships in the industrializing world, where interdependence continues to play an important role.[5] Here external sovereignty, along with territoriality, remains an important determinant in foreign policy and the definition of security. However, we can now see that integrating much of the developing world into the global economy brings not just economic benefits but immediate consequences for security as well. The more progress that can be made with their integration, the less emphasis there will be on external sovereignty, and thus on territoriality, as a source of conflict.[6]

In relations between developed and developing countries, the coexistence of interdependence and globalization is reflected in the changing mandate of international organizations such as the World Trade Organization (WTO), which no longer focuses exclusively on free trade (cooperative competition) but has been pressed by the industrialized countries to pursue this goal with an eye on environmental protection and minimum labor standards (competitive cooperation). The contending demands of interdependence and globalization will have a decisive influence on the future structure and mandate of international organizations and will be a defining characteristic of North-South relations in the years to come, as evidenced in the debate over efforts to cut global greenhouse gas emissions.

The dynamics of interdependence and globalization may also be observed within economic sectors, for example in financial services. Even as the industrialized countries, through the International Monetary Fund (IMF), the WTO, and the Organization for Economic Cooperation and Development (OECD) are encouraging other, mostly developing, nations to deregulate and liberalize their financial markets, they themselves are engaged in an effort to establish a global public policy framework that deals with the consequences of the deregulation and liberalization in their own financial services industries during the last three decades.

Co-managing the challenges created here by interdependence and globalization raises a number of important policy issues. First, whereas certain aspects of the liberalization and deregulation of financial services are dealt with primarily in the WTO, the IMF, and to some degree the OECD, regulatory and supervisory issues are covered by other institutional fora such as the Bank for International Settlements (BIS), the International Organization of Securities Commissions (IOSCO), and the Joint Forum, as well as a variety of regional organizations. Greater coordination and cooperation between the institutions of competition and those of cooperation, which in effect are operating on opposite sides of the same coin, would not only help ease the transition from an interdependent to a global world economy, but also make that transition more efficient. Ideally both functions would be located in one and the same institution, to reduce the turf fights that will undoubtedly arise as institutions compete over the global public policy portfolio. These turf fights have already begun in the financial services area.

Second, it must be asked whether deregulation at the national level and reregulation at the global level should be dealt with sequentially, as they have been in most cases to date. Considering that interdependence and globalization are causally related and can be strategized as an integrated whole, there is no reason why both policy steps cannot be brought closer together or even implemented simultaneously. A united effort would help to avoid bureaucratic overlap and turf fights among international institutions and permit a more integrated approach toward the dual challenge of domestic liberalization and global public policy. Asia's financial crisis in the fall of 1997 is a reminder that many economies will face this challenge in the years to come.

Implications for International Security

The conceptual distinction between interdependence and globalization has deeper implications that reach beyond the organizational and technical aspects of global public policy and place new demands on the management of international security. If the architects of international security and its institutions are to generate concrete solutions for the twenty-first century, managing external sovereignty as the sole paradigm for international relations will no longer suffice. International security requires a two-dimensional definition, embracing its external-collective, or territorial, as well as its internal-individual, or human, dimension. This will not be easy.

The shifting demands on those charged with maintaining international security will transform the domestic politics of security policy. In most cases the challenges emanating from globalization cannot be considered a threat to the collective security of a country, nor do they challenge the territorial integrity of nation-states. The threats are more diffuse and selective, and seldom directed at an entire country. Instead they tend to affect specific groups and, in some cases, a few individuals. These threats emanate not from territorial states but from nonstate actors, using integrated, nonterritorial global networks in such domains as information processing and communications, finance, technology, and transport to realize their ambitions. Such threats will be more difficult to anticipate and measure; still harder will be mustering support for a collective national response. Policy coalitions to counter them will cut across territorial boundaries and form around functional spaces, bringing the very concept of "national" security itself into question.

Introducing internal sovereignty as a transnational security issue will also have wide ranging institutional implications. Maintaining external sovereignty, in the final analysis, depends on the ability of a government to exclude, whereas preserving internal sovereignty ultimately depends on its ability to include. Creating a set of institutional structures and mechanism that can combine the two in a meaningful and constructive way defines the challenge for international relations in the years to come. Most recently, this challenge has manifested itself in the controversy over expansion of the North Atlantic Treaty Organization (NATO). Opponents (east and west) of NATO enlargement focus on external sovereignty, emphasizing the territorial character of the policy and its potential implications. Proponents have gone great lengths to deemphasize territoriality. NATO itself no longer refers to its initiative as an "expansion" but as an "adaptation." Indeed, by focusing on such themes as democracy and civil society, NATO's future mission has in part been redefined as promoting internal sovereignty, or at least preventing its breakdown.

But to ask whether NATO should or should not be enlarged may be to ask the wrong question. Given the organization's historical significance, institutional inertia, bureaucratic resistance, and the lack of concrete alternatives, the political bias is strongly in favor of enlargement, regardless of its repercussions on Russia. Moreover, if NATO is not enlarged, it will not be because a better vision for European and global security has emerged, but rather because in this policy domain, too, defensive intervention has gained the upper hand—an outcome that opponents of NATO expansion would consider to be even worse. The real question is whether the current NATO members are prepared to choose the right mix of external and internal sovereignty, one that reflects the changing composition of European and global security demands and the fact that many of those demands, including internal violence, proliferation, organized crime, terrorism, drug trafficking, and environmental pollution, can no longer be resolved without Russia's participation. The Russia-NATO Permanent Joint Council and a variety of other recent initiatives involving Russia are based on the principle of inclusion. They should be given every opportunity to succeed so that one day they will be considered as the first building blocks of a new European and global security structure.

But the growing need for inclusiveness reaches far beyond NATO. As the data on FDI and corporate alliances in chapter 1 show, large parts of the world economy remain excluded from globalization. Given the rising importance of internal sovereignty in international relations, this suggests a strategic vision that places the international financial institutions, such as the IMF, the World Bank, regional development organizations, and the United Nations, at the center of future arrangements for international security, while putting new programmatic demands on them. The World Bank has already begun to shift its attention toward aspects of internal sovereignty, including good governance, poverty reduction, environmental protection, and, more recently, the prevention of internal violence; it should continue to direct its resources and powers towards that end. The IMF, too, has begun to focus its attention on such matters as the regulation and supervision of the global financial system, money laundering, tax collection, and other aspects of internal sovereignty. In fact, both institutions have gone further. Examining the economic consequences of excessive military spending, they have on occasion questioned the devotion of resources to the preservation of external sovereignty by countries that can no longer finance even such rudimentary elements of internal sovereignty as basic health care and education.

If these programmatic changes are to continue and to succeed, these international organizations must be able to internalize the principles of global public policy. Unless they make greater use of horizontal subsidiarity, they will not be able to respond swiftly and decisively to the challenges that globalization generates. Unless they become more open and transparent, they will not attain the degree of accountability and legitimacy that the management of internal sovereignty requires. It is true that nongovernmental organizations have become a central force in realizing vertical (global versus local) and horizontal (state versus nonstate) subsidiarity, but it is too early to determine the outcome of what must be considered a modest, although important, change in that direction.

The problem with the current debate over the reform of the international financial institutions is that it focuses too much on how much power these institutions should have, and not enough on their accountability. The more accountable they are, the more power they can be allowed, and certainly they will need more power if they are to fulfill their mandate in the global economy. Five decades ago these institutions were given a mandate to promote interdependence. Their future lies with the promotion of globalization and global public policy itself. Unless member governments are willing to grant the necessary revisions of their charters, it will be very difficult for these institutions to pursue this new mandate, providing further support for their critics.

One of the defining characteristics of internal sovereignty is its inclusive character. To date, globalization has not performed too well on that account. Nationally, governments struggle to remain inclusive in the face of growing unemployment and rising poverty even as globalization calls for the radical transformation of their economic structures. At the level of the world economy, "globalization" does not yet accurately describe economic reality: large parts of the world economy remain shut out from the process. They risk being excluded from the growth dynamic that deeper integration brings; such exclusion would further heighten already staggering levels of global inequality. But under conditions of deep integration, exclusion no longer implies isolation. Many global public policy issues simply cannot be resolved without the active participation and cooperation of the developing world. The success of global public policy, and thus the success of globalization itself, will depend on the degree to which it can promote inclusiveness. The magnitude of this task cannot be underestimated: during each of the next three to five decades a billion people will be added to the world population, 95 percent of

whom will fall within the lowest 20 percent of the global distribution of income and wealth.[7] This worsening of global inequality will further sharpen the North-South divide.

For globalization to succeed, transfers of capital, both tangible and intangible, to the developing world will continue to be sorely needed. The bulk of these transfers will be channeled through the private sector, and the dramatic change already seen in the composition of financial flows to the industrializing world attests to that. In 1990, 44 percent of all long-term financial flows to developing countries came from private sources, the remainder being public financial flows. By 1996, the share of private financial flows had increased to 86 percent.[8] The bulk of North-South transfers will continue to come from the private sector. But if global public policy is to succeed, the governments of developing countries will have to participate in it. Among other things, this presumes that these countries have the institutional infrastructure and the bureaucratic capacities in place to exercise internal sovereignty which in many instances is not the case.[9] Renewed calls for development assistance may seem vain given the difficulty some have in rationalizing foreign aid after the cold war. However, as this study has shown, resource transfers to promote global financial stability, fight international money launderers, suppress the military application of dual-use technologies, and meet other goals of global public policy are in truth neither "foreign" nor "aid," but rather an investment that generates a return and that return is shared by all.

Toward Global Public Policy

The interventionist strategies discussed in this book cannot be disregarded, since their use is on the rise. They no longer exclude such drastic versions of interventionism that rely either on a country's unilateral projection of internal sovereignty upon others or the attempted reassertion of internal sovereignty through territorial secession. External sovereignty will once again come to dominate relations among states, increasing the risk of territorial conflict.

The alternative scenario, global public policy, requires political leadership and institutional change, both of which are in short supply. It also requires the willingness and close cooperation of private and nongovernmental actors to share responsibility in exercising public policy.

In particular, the degree to which the global corporate community is ready and able to take on some of the public policy functions in conjunction with other nonstate actors will be decisive in determining success. This blurring of the public and private spheres, once clearly demarcated domains whose origin dates back to the end of the feudal era, is an indication of the powerful social force that globalization represents. At its root lies the fact that modern territorial sovereignty as an organizing principal of political and social life is becoming contested.[10] But, as has been argued in this essay, it is the *territoriality* of sovereignty as an instrument of public policy that is becoming contested, not the concept of sovereignty itself. The latter will only face a crisis if public policy cannot replace territoriality with a functional equivalent that is better equipped to meet the challenges of globalization.

Considering the data on globalization, there can be little doubt that the world economy is characterized by a growing number of global corporate networks. The current state of global governance, however, at best resembles a loose set of cross-national policy patchworks conspicuous for its missing links and unnecessary overlaps. Given the evolutionary, often hybrid nature of social and in particular integrative processes, this should not come as a surprise. Nevertheless, for global public policy to become a viable and workable alternative to interventionism, it is time for governments to step in and ensure that these patchworks can evolve into networks of governance that can operationalize internal sovereignty in the global economy. Their first step would be to commission a global governance audit. The purpose of such an audit is to map these patchworks responding to global obligations and responsibilities along different dimensions including the functional, financial, institutional, and structural.

The next step toward a global public policy network is to fill the most important gaps and establish the missing links identified in each policy domain. At least three separate but related initiatives are necessary to achieve that goal. First, national bureaucracies, not just the top leadership, need to establish permanent channels of communication to facilitate the exchange of information on cross-border economic activity. The experience of financial regulation and its recent failures evidenced in the case of Barings and Daiwa Banks have confirmed the urgency of such an initiative, and some progress has been made during the last few years. But this networking needs to go far beyond the domain of global capital markets. In addition to these regularized forms of communication, periodic meetings among policymakers to share experiences, techniques, and lessons learned should prove highly valuable. Both forms of interaction will create a sense of trust and shared purpose that provide some substance to the concept of "international community," a term that continues to suffer from vacuity. Second, in the multilateral domain greater cooperation—not competition—is required among international institutions. This avoids unnecessary and wasteful duplication of activities. An agreed-upon division of labor on global governance issues can contain the growing number of turf fights that have erupted in recent years. The December 1996 agreement on collaboration and cooperation between the IMF and the WTO is a welcome start. But as the World Bank's experience in the former Yugoslavia has shown, such institutionalized exchange of information and coordination of activities must extend from humanitarian and to security organizations, such as NATO or the Organization for Security and Cooperation in Europe, which are increasingly confronted with other dimensions of eroding internal sovereignty.

Finally, while multigovernmental networks represent a necessary precondition for global public policy, they are by no means sufficient. Unless governments and international organizations sufficiently promote and even facilitate the formation of cross-national structures of interest formation, aggregation, and representation and are subsequently prepared to engage these structures in the operationalization of internal sovereignty, the core feature of global public policy—public-private partnerships—cannot come to fruition. In policy areas such as environmental protection, humanitarian assistance, and, to some degree, financial regulation, support for such structures has grown. But too often this support has come as a hasty reaction to a crisis and was not part of a proactive, well-executed strategy. In addition, it is those cross-national social networks, representing the foundation of a global civil society and ensuring that internal sovereignty can be operationalized not only in a nonterritorial context but also on popular terms, that are vital to the legitimacy and accountability of global public policy.

Back to the Future

Going beyond the immediate policy arena, it is difficult to ignore the fact that international relations, and the international system itself, are at a crucial crossroads. The fusion or blurring of the public and private spheres, which at least since the Industrial Revolution and the end of feudalism have been clearly demarcated and contested spaces, is only one of many signs that contemporary social systems find themselves at a threshold of similar historical magnitude. At the root of this transformation lies the fact that sovereignty is becoming contested, both as a concept and as an instrument for public policy. But here, too, it is important to be specific. First, it is the *territoriality* of sovereignty, and therefore the nation-state, that is being contested, not necessarily sovereignty itself. The latter will face a crisis only if public policy cannot replace territoriality with a functional equivalent that is better equipped to meet the specific challenges of globalization. Second, the challenges faced today by the nation-state are primarily challenges to internal, not external sovereignty. Both distinctions are central to the conceptual framework developed in this book, and both are important elements in a strategy of response. They are also instructive when probing further into the future, including the future of the nation-state itself.

External and internal sovereignty are not unrelated. The primary reason for distinguishing between them today is the success of the nation-state, during the transition from feudalism to capitalism, in establishing itself as the dominant and ultimately sole institutional form exercising internal sovereignty.[11] It was able to do so only by invoking external sovereignty, which guaranteed a monopoly of power over a territory, its resources, and its people. Today, as has been shown, such power can no longer be guaranteed. With globalization, internal sovereignty can no longer be operationalized through a reliance on territoriality. This deprives external sovereignty of its functional value. Where global public policy is fully operational, external sovereignty has lost its meaning. In a growing number of public policy areas, exporting anarchy to the international system, as Thomas Hobbes did, will no longer guarantee safety and stability at home. The nation-state as an *externally* sovereign actor in the international system will become an institution of the past.

But this will only happen if internal sovereignty also finds a new operational context—global public policy. This requires political elites, in part, to dissociate themselves from territory and create a more dynamic and responsive organizational and institutional context. *Anarchy is no longer just the outcome of, but also the cause for state interests in the international system.* Whether and for how long the evolving hybrid that

results is still called "state" should be of lesser concern. Political geography and its institutions have changed many times over the centuries, relying to varying degrees on the concept of territory and a single central power to administer sovereignty. The nation-state is one relatively recent form of governance, and there is no reason to believe that it has a claim to perpetuity. Similarly, it has been shown that the meaning of sovereignty as a concept in international relations has changed over time, which can affect our understanding of international relations.[12] But while the territorial state as an abstraction may eventually become redundant, the principles and values that govern democracies should not. Steps should be taken now to support and accelerate the notion of global public policy, so that our societies will be better equipped to respond to the demands of globalization.

118. Bairoch, *Economics and World History,* p. xiv; Paul Bairoch and Richard Kozul-Wright, "Globalization Myths: Some Historical Reflections on Integration, Industrialization and Growth in the World Economy," UNCTAD/OSG/DP/113 (United Nations, March 1996).

119. See also UNCTAD, *World Investment Report 1994,* chapter 3.

120. In the United States, for instance, exports of services were equal to approximately 2.9 percent of GDP in 1992 (at current prices). *Economic Report of the President 1996,* appendix tables B-1, B-102.

121. Philip Turner, "Capital Flows in the 1980s: A Survey of Major Trends" in *BIS Economic Papers* 30 (Basle: BIS, April 1991).

122. This was reflected in relatively narrow interest rate differentials across countries, with only small differences in rates being required to finance balance of payments imbalances, and in the fact that short-term capital flows were not dominated by expectations of exchange rate changes as they are today, creating the massive trading volumes in the foreign exchange markets.

123. It is estimated that by 1914 three-quarters of the United Kingdom's foreign investment position was in public and public utility investment, of which the majority was in railroads in the United States, Argentina, and India. See Joseph Bisignano, "The Internationalization of Financial Markets: Measurement, Benefits, and Unexpected Interdependence," in *Cahiers economiques et monétaires* 43 (Paris: Banque de France, 1994), p. 21.

124. The primary sector accounted for 55 percent of the total stock of FDI in 1913. Another 30 percent was accounted for by transportation, trade, and distribution, and only 15 percent by manufacturing. See John H. Dunning, "Changes in the Level and Structure of International Production," in M. Casson, *The Growth of International Business,* p. 89.

125. See also Krugman, "Growing World Trade."

126. In the case of trade, it is estimated that 17 percent of exports from western Europe were sent to the developing world between 1800 and 1938, of which about half were directed to colonial empires. For some countries, however, and in certain product categories, these proportions were often considerably higher. The United Kingdom, for instance, shipped 40 percent of all its exports and 67 percent of its cotton textile exports to the developing world during this period. See Bairoch, *Economics and World History,* pp. 72–79. For more on colonialism and international trade see Ephraim Kleiman, "Trade and the Decline of Colonialism," *Economic Journal,* vol. 86 (1976), pp. 459–79.

127. Cleona Lewis, *Debtor and Creditor Countries: 1938–1944* (Brookings, 1945), p. 48.

128. Thus the European countries (and the United States) either totally prohibited the import of yarn or manufactured cotton or imposed duties ranging from 30 to 80 percent, yet British textile goods could enter the Indian market with no duties at all. Bairoch, *Economics and World History,* p. 89.

129. See, for example, Angus Maddison, *The World Economy in the 20th Century* (Paris: OECD, 1989); Mic Panic, *National Management of the International Economy* (London: St Martin's Press, 1988); John Henderson, "International Economic Integration: Progress, Prospects and Implications," *International Affairs,* vol. 68 (1992), pp. 633–53.

130. OECD, *Financial Market Trends* 64 (Paris, June 1996), p. 46.

131. OECD, *Globalisation of Industrial Activities: Background Report.*

132. OECD, "Symposium on the Globalisation of Industry," p. 5.

133. OECD, "Technology and Globalisation," p. 209.

134. Hatzichronoglou, "Globalisation and Competitiveness," p. 14.

Chapter 2

1. See Jean Marie Guehenno, *The End of the Nation-State,* trans. Victoria Elliot (University of Minnesota Press, 1995); Kenichi Ohmae, *The End of the Nation-State: The Rise of Regional Economies* (Free Press, 1995).

2. Stephen Krasner, "Sovereignty: An Institutional Perspective," *Comparative Political Studies,* vol. 21, no. 1 (April 1988), p. 76; see also Nicholas Colchester, "Goodbye, Nation-State. Hello . . . What?" *New York Times,* July 17, 1994, p. 17.

3. Jessica T. Mathews, "Power Shift," *Foreign Affairs,* vol. 76, no. 1 (January/February 1997), pp. 50–66; Peter J. Spiro, "New Global Communities: Nongovernmental Organizations in International Decision-Making Institutions," *Washington Quarterly,* vol. 18, no. 7 (Winter 1995), pp. 45–56; see also Raymond Vernon, "Transnational Corporations: Where Are They Coming from, Where Are They Headed?" *Transnational Corporations,* vol. 1, no. 2 (August 1992), pp. 7–35.

4. For a cogent summary of this view, see "The Myth of the Powerless State," *The Economist,* October 7, 1995, pp. 15–16.

5. For an early exposition of this argument see David Cameron, "The Expansion of the Public Economy," *American Political Science Review,* vol. 72, no. 4 (1978), pp. 1243–61; for a more recent exposition, addressing the rising popular resentment against globalization, see Dani Rodrik, "Why Do More Open Economies Have Bigger Governments?" Working Paper 5537 (Cambridge, Mass.: National Bureau of Economic Research, April 1996); Dani Rodrik, "Trade, Social Insurance, and the Limits to Globalization," Working Paper 5905 (Cambridge, Mass.: National Bureau of Economic Research, January 1997); and Dani Rodrik, *Has Globalization Gone Too Far?* (Washington: Institute for International Economics, 1997).

6. Krasner, "Sovereignty: An Institutional Perspective," pp. 66–94.

7. See Theodore Lowi, "American Business, Public Policy, Case Studies, and Political Theory," *World Politics,* vol. 16 (1964), p. 689.

8. Robert O. Keohane and Joseph S. Nye Jr., "Power and Interdependence Revisited," *International Organization,* vol. 41, no. 4 (1987), pp. 725–53.

9. For a general discussion see David Baldwin, "Interdependence and Power: A Conceptual Analysis," *International Organization,* vol. 34 (1989), pp. 471–506; R. J. Barry Jones and Peter Willetts, *Interdependence on Trial: Studies in the Theory and Reality of Contemporary Interdependence* (New York: St. Martin's, 1984); P. A. Reynolds and R. D. McKinlay, "The Concept of Interdependence: Its Uses and Misuses," in Kjell Goldmann and Gunnar Sjöstedt, eds., *Power, Capabilities, Interdependence: Problems in the Study of International Influence* (Sage, 1979). On complex interdependence see Robert O. Keohane and Stanley Hoffmann, "Institutional Change in Europe in the 1980s," in Robert O. Keohane and Stanley Hoffmann, eds., *The New*

European Community: Decisionmaking and Institutional Change (Boulder, Colo.: Westview Press, 1991), pp. 1–39; Keohane and Nye, "Power and Interdependence Revisited."

10. Robert O. Keohane and Joseph S. Nye, Jr., *Power and Interdependence: World Politics in Transition* (Little, Brown, 1977), pp. 8, 12–19. The notion of increased national sensitivity to external (economic) developments was first introduced by Richard N. Cooper, *The Economics of Interdependence: Economic Policy in the Atlantic Community* (McGraw-Hill, 1968).

11. This distinction was first made by Bull, who calls the two concepts "normative" and "factual" sovereignty. See Hedley Bull, *The Anarchical Society: A Study of Order in World Politics* (Columbia University Press, 1977), p. 8. The distinction has recently been elaborated by Keohane, who distinguishes between "formal" and "operational" sovereignty. See Robert O. Keohane, "Sovereignty, Interdependence, and International Institutions," Working Paper 1 (Harvard University, 1991).

12. Joel Krieger, ed., *The Oxford Companion to Politics of the World* (Oxford University Press, 1993), p. 851.

13. Bull, *The Anarchical Society*, p. 8.

14. John Gerard Ruggie, "Continuity and Transformation in the World Polity: Toward a Neorealist Synthesis," *World Politics*, vol. 35, no. 2 (January 1983), p. 276. See also Ruth Lapidoth, "Sovereignty in Transition," *Journal of International Affairs*, vol. 45, no.2 (1992), pp. 325–46, for a good historical overview of the concept of sovereignty and its meanings.

15. Martin Wight, *International Theory: The Three Traditions*, edited by Gabriele Wight and Brian Porter (Holmes & Meier, 1992), pp. 2–3.

16. The classic work here is Jean Bodin, *Six Books of the Commonwealth* (Harvard University Press, 19962). Bodin defined citizenship as subjection to a sovereign. See George Holland Sabine, *A History of Political Theory*, 4th ed. (Hinsdale: Dryden Press, 1973), chap. 20; see also Max Adams Shepard, "Sovereignty at the Crossroads: A Study of Bodin," *Political Science Quarterly*, vol. 45 (Columbia University, 1930), pp. 580–603.

17. See Max Weber, *Economy and Society: An Outline of Interpretive Sociology*, edited by Guenther Roth and Claus Wittich (University of California Press, 1978).

18. Krasner, "Sovereignty: An Institutional Perspective," pp. 66–94.

19. David Dessler, "What's at Stake in the Agent-Structure Debate," *International Organization*, vol. 43, no. 3 (Summer 1989), pp. 441–74.

20. John Gerard Ruggie, "Territoriality and Beyond: Problematizing Modernity in International Relations," *International Organization*, vol. 47, no. 1 (Winter 1993), pp. 139–74. As Ruggie correctly points out, in reality this exclusion cannot be total, for this would imply no contact among states. Over the years this contact has grown and developed into an extensive set of bilateral, plurilateral, and multilateral relationships that allow externally sovereign states to interact with each other.

21. Alexander Wendt, "Anarchy Is What States Make of It: The Social Construction of Power Politics," *International Organization*, vol. 46, no. 2 (1992), pp. 395–421.

22. The distinction between internal and external sovereignty is also helpful in examining other issues in international relations. Yugoslavia provides an example. Although some progress has been achieved in establishing external sovereignty for the successor states of the former Yugoslavia, much work remains to be done to consolidate their internal sovereignty. If this fails, so will the ongoing efforts at sustaining external sovereignty for each successor state. At a more general level, it is probably accurate to assume that, in the evolution of the modern state in western Europe, internal sovereignty preceded the establishment of external sovereignty. In many of the former European colonies, on the other hand, external sovereignty, often imposed from without, was much more developed than its internal counterpart, which in many cases remains weak. See Robert H. Jackson and Carl G. Rosberg, "Why Africa's Weak States Persist: The Empirical and the Juridical in Statehood," *World Politics*, vol. 35, no. 1 (1982), pp. 1–24; Robert H. Jackson, *Quasi-States: Sovereignty, International Relations and the Third World* (Cambridge University Press, 1990). See also Francis Deng and others, *Sovereignty as Responsibility: Conflict Management in Africa* (Brookings, 1996).

23. Ruggie, "Territoriality and Beyond," pp. 139–74.

24. As Wendt points out, "the commitment to and the salience of particular identities vary, but each identity is an inherently social definition of the actor grounded in the theories which actors hold about themselves and one another and which constitute the structure of the social world." Wendt, "Anarchy Is What States Make of It," pp. 395–421.

25. On this debate see, for example, *International Security*, vol. 20, no. 1 (Summer 1995), entire issue; Baldwin, "Interdependence and Power"; John Mearsheimer, "Back to the Future: Instability in Europe after the Cold War," *International Security*, vol. 13 (Summer 1990), pp. 5–56; Robert O. Keohane, *International Institutions and State Power: Essays in International Theory* (Boulder, Colo.: Westview Press, 1989); Joseph M. Grieco, "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism," *International Organization*, vol. 42 (Summer 1988), pp. 485–507; Robert O. Keohane, ed., *Neorealism and Its Critics* (Columbia University Press, 1986).

26. The standard work on neorealism is Kenneth N. Waltz, *Theory of International Politics* (Addison-Wesley, 1979).

27. For the distinction between structure and process see Wendt, "Anarchy Is What States Make of It"; on the importance of process for cooperation see Robert Axelrod, *The Evolution of Cooperation* (Basic Books, 1984), and Kenneth A. Oye, ed., *Cooperation under Anarchy* (Princeton University Press, 1986).

28. This explains the liberals' frequent references to the prisoner's dilemma game.

29. Grieco, "Anarchy and the Limits of Cooperation," pp. 485–507.

30. Wendt, "Anarchy Is What States Make of It." Wendt does acknowledge that a number of neoliberals have attempted to include theories of complex learning and adaptation in their writings, but argues that "they lack a systematic theory on how such change occurs," p. 393.

31. For a distinction between absolute and relative gains see Grieco, "Anarchy and the Limits of Cooperation," pp. 485–507.

32. Stephen D. Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables," in Stephen D. Krasner, ed., *International Regimes* (Cornell University Press, 1983), p. 2.

33. Highlighting this difference between absolute and relative sovereignty should

be the neoliberal rebuttal to the neorealist critique that neoliberals neglect to differentiate between absolute and relative gains—a critique eloquently advanced by Grieco, "Anarchy and the Limits of Cooperation." Thus neoliberals are concerned about relative notions of power, a concern that is embodied in the principle of reciprocity.

34. On "embedded liberalism" see John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," and Stephen D. Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables," both in Stephen D. Krasner, ed., *International Regimes* (Cornell University Press, 1983); the importance of domestic coalitions and interest formation in the context of the regimes literature has been demonstrated by Robert Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization*, vol. 42 (Summer 1988), pp. 427–60.

35. John A. C. Conybeare, "Public Goods, Prisoners' Dilemma and the International Political Economy," *International Studies Quarterly*, vol. 28 (March 1984), pp. 5–22. If and to what degree individual governments use their internal sovereignty to ensure broad-based distribution of the gains is an open question. Rodrik also makes this point when he discusses the social implications of globalization, stating that trade not only increases income but also redistributes it among industries, regions, and individuals. "Therefore, a principled defense of free trade cannot be constructed without addressing the question of the fairness and legitimacy of these distributional 'costs.'" See Dani Rodrik, "Sense and Nonsense in the Globalization Debate," *Foreign Policy*, vol. 107 (Summer 1997), p. 28.

36. Grieco, "Anarchy and the Limits of Cooperation," pp. 485–507.

37. Holm and Sørensen also make such an effort. See Hans-Henrik Holm and Georg Sørensen, "Introduction: What Has Changed?" and "International Relations Theory in a World of Variation," in Holm and Sørensen, eds., *Whose World Order?* pp. 1–17 and 187–206.

38. Paul Hirst and Grahame Thompson, "The Problem of 'Globalization': International Economic Relations, National Economic Management and the Formation of Trade Blocs," *Economy and Society*, vol. 21, no. 4 (November 1992), pp. 357–96; see also Paul Hirst and Grahame Thompson, *Globalization in Question: The International Economy and the Possibilities of Governance* (Cambridge, England: Polity Press, 1996).

39. Stephen J. Kobrin, "An Empirical Analysis of the Determinants of Global Integration," *Strategic Management Journal*, vol. 12 (1991), pp. 17–31.

40. See Ruggie, "Territoriality and Beyond," pp. 139–74. Ruggie adapted the use of this term from Friedrich Kratochwil, "Of Systems, Boundaries, and Territoriality," pp. 27–52.

41. For more on the concept of information asymmetry, see the case studies.

42. The Internet and in particular electronic commerce have not only accelerated that process considerably, but have also given small individual consumers and small producers access to the global marketplace.

43. Kratochwil, "Of Systems, Boundaries, and Territoriality," pp. 27–52.

44. See, for example, Hendrik Spruyt, "Institutional Selection in International Relations," *International Organization*, vol. 48, no. 4 (1994), pp. 527–57.

45. Of course, this is not to say that, in a democracy, public policy has never been sensitive to the interests of competing groups, including that of the private sector. In a democracy, "voice" has been and should always be the principal instrument by which different interest groups, including the private sector, shape domestic policymaking. Thus, as discussed above, for example, the voice of the dominant private sector coalitions has been a central factor in determining the path of international economic interdependence and conditioning the positions of governments in international economic regimes. Globalization has changed this dynamic by making the option of "exit" not only a viable and sometimes more convenient option, but also in many cases the necessary, even the natural strategy. For more on exits, see Albert O. Hirschman, *Exit, Voice and Loyalty: Responses to Decline in Firms, Organizations, and States* (Harvard University Press, 1970).

46. Marc Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology*, vol. 91 (November 1985), pp. 481–510.

47. James S. Coleman, "Introducing Social Structure into Economic Analysis," *American Economic Review*, vol. 74 (May 1984), pp. 84–88.

48. The balancing of public and private interests is, of course, not free of conflict. Yet all social actors are in agreement that a certain basic framework, be it of a legal, political, or even social nature, is not only compatible with but even desirable when operating in a market environment. Nowhere has this become more apparent than in the recent process of systemic transformation in the former Eastern bloc.

49. One commentator has taken the argument even further: "The nightmare for politicians is that they are held responsible for their national economies but have fewer ways of affecting the economy's direction. Responsibility without power can be as corrupting as power without responsibility." See E. J. Dionne, "All Politics Is Now Global," *Washington Post*, July 13, 1993, p. A15. Another has linked it to the declining attractiveness of public service. "The [U.S.] congressional exodus may reflect a sense that what governments do matters less in a world than it is used to because the map of power is being redrawn; not the distribution of power among nations but between national governments on the one hand and non-governmental entities . . . on the other." See Jessica T. Mathews, "Exodus of Authority," *Washington Post*, January 22, 1996, p. A19.

50. Edward Mortimer, "Surfeit of Good Things: The right to vote can be meaningless if the real choices are left to the market and those elected are powerless to act," *Financial Times*, February 28, 1996, p. 16.

51. The inability of the interdependence literature to focus on the internal dynamics that arise in response to increased interdependence has recently been acknowledged. "Missing from this [interdependence] literature, however, was a systematic analysis of how interdependence affected domestic politics." Milner and Keohane, "Internationalization and Domestic Politics," p. 7.

52. Ruggie, "Territoriality and Beyond," p. 172.

53. The distinction between "somewhere else" and "another place" comes from Ruggie, "Territoriality and Beyond," pp. 139–74.

54. Wendt, "Anarchy Is What States Make of It," pp. 395–421.

55. Recall the earlier point that external sovereignty is unsustainable in the longer term if internal sovereignty cannot be maintained, either by democratic or by

other means. Historically, internal sovereignty has preceded external sovereignty and has been more important as a constitutive force during the process of state formation.

56. The argument presented here gives strong support to Wendt's analysis, which states that socialization, which is the interaction of states over time, will change states' identities and interests. Yet Wendt had to concede that the strength of his argument depends on "how important interaction among states is for the constitution of their identities and interests." Wendt, "Anarchy Is What States Make of It," p. 423. As far as globalization goes, interaction is, of course, vital, since it is the only way to preserve internal sovereignty.

57. Keohane recently acknowledged that his and Nye's analysis in *Power and Interdependence* was limited to the international level, and thus that they "had to view interests [of states] as formed largely exogenously, in a way unexplained by our theory . . . [yet] changes in the definitions of self interest . . . kept appearing in our case studies." Keohane and Nye, "Power and Interdependence Revisited," p. 739.

58. Note that this is different from the notion of declining external sovereignty under the neoliberal paradigm of cooperative competition. There sovereignty was said to decline in absolute terms but remain the same in relative terms. Here external sovereignty has lost its meaning. These are no longer interactions between separate territorial entities.

CHAPTER 3

1. Peter Sutherland, former director general of the WTO. See Guy de Jonquieres, "Sutherland Urges Policy Framework: WTO Director General Warns of a 'Returning Tide of Protectionism,'" *Financial Times*, January 30, 1995, p. 4.

2. C. Fred Bergsten, "The World Economy after the Cold War," *California Management Review* vol, 34, no. 2 (Winter 1992), pp. 51–65, and Guy de Jonquieres "Tackling Trade Barriers: Transnational Businesses are Having to Contend with Ever More Obstacles," *Financial Times*, October 6, 1995, p. xix; see also J. Nogues, A. Olechowski, and L. A. Winters, "The Extent of Nontariff Barriers to Industrial Countries' Imports," *World Bank Economic Review*, vol. 1 (1986), pp. 181–99; on antidumping see Congressional Budget Office, *How the GATT Affects U.S. Antidumping and Countervailing-Duty Policy* (Washington, September 1994); see also Nancy Dunne, "White House Urged to Reduce Use of Antidumping Measures," *Financial Times*, December 8, 1994, p. 7.

3. Mark Clough, "Shadow Cast over WTO," *Financial Times*, April 15, 1997, p. 16.

4. "Disputes Reach Century Mark," *WTO Focus*, no. 21 (August 1997), p. 1.

5. See George Parker, "Goldsmith Aims to be Britain's Answer to Perot: Politics is too serious to be left to politicians, the billionaire Referendum party leader tells supporters," *Financial Times*, July 1, 1996, p. 7; for Goldsmith's position on these issues see Sir James Goldsmith, *The Trap* (New York: Carroll & Graf, 1995); on the situation in France see Suzanne Berger, "The Coming Protectionism: Trade and Identity in France," in Gregory Flynn, ed., *Remaking the Hexagon: The New France in the New Europe* (Westview Press, 1995), pp. 195–210; on Austria see Brigitte Bailer-Galanda, *Haider wörtlich: Führer in die Dritte Republik* (Vienna: Löcker, 1995).

6. Robert Z. Lawrence, *Single World, Divided Nations? International Trade and the OECD Labor Markets* (Brookings, 1996); Adrian Wood, *North-South Trade, Employment, and Inequality: Changing Fortunes in a Skill-Driven World* (Oxford University Press, 1994). See also Robert Z. Lawrence and Robert E. Litan, "Globaphobia: The Wrong Debate over Trade Policy," *Brookings Policy Brief*, no. 24 (September 1997) and related cites, p. 8.

7. This list reflects Buchanan's agenda perhaps more than others. See, for example, Patrick J. Buchanan, "An American Economy for Americans," *Wall Street Journal*, September 5, 1995, p. 14; "Nothing Timid about My Nationalism," *Washington Post*, October 30, 1995, p. 17; and "It's about Our Way of Life," *Washington Post*, November 7, 1993, p. 1. Nader advocates political reform to open the decisionmaking process on foreign policy issues such as trade agreements to the broader public. See "Ralph Nader, Throwback to the Future," *The Economist*, March 30, 1996, p. 36; Leslie Kaufman, "America's New Mr. International," *International Economy*, vol. 5, no. 4 (July-August 1991), pp. 35–37.

8. "Buchanan's Protectionism Slows Trade Agenda," *Congressional Quarterly*, March 2, 1996, pp. 532–36. Two bills introduced in 1995 were geared toward a reversal of the trade liberalization agenda. The NAFTA Accountability Act (H.R. 978/S.1514) provides, among other things, for U.S. withdrawal from the North American Free Trade Agreement (NAFTA) unless certain conditions are met. The WTO Dispute Settlement Review Commission Act (H.R.78) would establish a commission to review all WTO dispute settlement cases where the final report is adverse to the United States. See also Nancy Dunne, "Alarm over Protection with New Bite in '97," *Financial Times*, February 26, 1996, p. 5. In a speech on November 3, 1995, Senator Bob Dole (R-Kan.) announced his opposition to any new trade deals until results from NAFTA and the Uruguay Round were in. See Ben Wildavsky, "The Insider's Insider," *National Journal*, vol. 27, no. 46 (November 18, 1995), pp. 2852–55; see also "The Struggle for the Soul of a Changing GOP," *Congressional Quarterly*, April 6, 1996, pp. 941–48, and "Deficit Looks Tiny as Issue," *New York Times*, February 14, 1996, p. 1.

9. "Deficit Looks Tiny as Issue," p. 1.

10. See, for example, Ralph Nader, "Trade in Secrets," *Washington Post*, October 6, 1996, p. 31; on world government see "Sovereignty and the WTO," *Washington Post*, May 10, 1994, p. A16.

11. Buchanan, "Nothing Timid about My Nationalism," p. 17.

12. See, for example, the testimony of Lori Wallach, director, Public Citizen's Global Trade Watch, in *Future Direction of U.S. Trade Policy*, Hearings before the Subcommittee on Trade, House Ways and Means Committee, 105 Cong., 1 sess. (GPO, 1997).

13. Cerny has called this the "competition state." See Philip G. Cerny, *The Changing Architecture of Politics: Structure, Agency and the Future of the State* (Sage, 1990), especially chapter 8.

14. Edward Luttwak, *The Endangered American Dream: How to Stop the United States from Becoming a Third World Country and How to Win the Geo-Economics: Struggle for Industrial Supremacy* (Simon & Schuster, 1993); Lester Thurow, *Head to Head: The Coming Economic Battle among Japan, Europe and America* (Morrow,

Alabama spent $200,000 per job created. See Allen R. Myerson, "O Governor, Won't You Buy Me a Mercedes Plant?" *New York Times,* September 1, 1996, p. 1.

30. As quoted in de Jonquiers, "Waging a War for US Business"; on European retaliation see David Buchan, "French Attack Clinton on Aircraft Sales," *Financial Times,* March 2, 1994, p. 6; Quentin Peel, "Bonn Urged to Promote Exports More Vigorously," *Financial Times,* October 12, 1993, p. 7.

31. Theodore H. Moran, "An Economics Agenda for Neorealists," *International Security,* vol. 18, no. 2 (1993), p. 214.

32. Vincent Cable, "What Is International Economic Security?" *International Affairs,* vol. 71, no. 2 (April 1995), pp. 305–24.

33. Paul Krugman, "Competitiveness: A Dangerous Obsession," *Foreign Affairs,* vol. 73, no. 2 (March-April 1994), pp. 28–44; see also Krugman, "The Illusion of Conflict in International Trade," *Peace Economics, Peace Science, and Public Policy,* vol. 3 (Winter 1995), pp. 9–18.

34. See, for example, Pietro S. Nivola, *Regulating Unfair Trade* (Brookings, 1993).

35. See OECD, *Multilateral Agreement on Investment: Progress Report,* OECD/GD(96)78 (Paris, 1996).

36. Thomas J. Prusa, "The Trade Effects of US Antidumping Actions," Working Paper 5440 (Cambridge, Mass.: National Bureau of Economic Research, 1996).

37. Local content rules require that a firm use a certain amount of domestically produced inputs in the production of its final output. For background information see G. M. Grossman, "The Theory of Domestic Content Protection and Content Preference," *Quarterly Journal of Economics,* vol. 96 (1981), pp. 538–603; T. H. Moran and C. S. Pearson, "Tread Carefully in the Field of TRIP Measures," *The World Economy,* vol. 11, no. 1 (1988), pp. 119–34; M. Mussa, "The Economics of Content Protection," Working Paper 1457 (Cambridge, Mass.: National Bureau of Economic Research, 1984); OECD, "Trade Related Investment Measures: An Overview of Characteristics, Incidence and Effects," TC/WP (87) 78 (1987).

38. As quoted in Nancy Dunne, "Congress Urged to Reject R&D Proposal," *Financial Times,* August 18, 1994, p. 4.

39. For a discussion of some of these differences and their implications for deeper integration between the United States and Canada see R. Kent Weaver, "Domestic Political Structures and the Management of Complex Interdependence," Brookings, August 1996.

40. For an earlier argument along these lines see James N. Rosenau and Ernst-Otto Czempiel, eds., *Governance without Government: Order and Change in World Politics,* Cambridge Studies in International Relations 20 (Cambridge University Press, 1992).

41. *Webster's Third New International Dictionary,* s.v. "sovereignty."

42. Centre for Economic Policy Research, *Making Sense of Subsidiarity: How Much Centralization for Europe?* (London, November 1993).

43. The Tenth Amendment to the U.S. Constitution reads, "The powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively or to the people." In the Treaty on the European Union the relevant section is Article G (3b), which reads, "The Community shall act within the limits of the powers conferred upon it by this Treaty and of the objectives assigned to it therein. In areas which do not fall within its exclusive competence, the Community shall take action, in accordance with the principle of subsidiarity, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community." *Treaty on the European Union* (Luxembourg: Office for Official Publications of the European Communities, 1992). For more on the concept of subsidiarity see, for example, Rudolf Hbrek, ed., *Das Subsidiaritätsprinzip in der Europäischen Union—Bedeutung und Wirkung für ausgewählte Politikbereiche* (Baden-Baden: Nomos, 1995); Centre for Economic Policy Research, *Making Sense of Subsidiarity.*

44. For some background on soft law see Tadeusz Gruchalla-Wesierski, "A Framework for Understanding Soft Law," *McGill Law Journal,* vol. 30 (1984), p. 37; C. M. Chinkin, "The Challenge of Soft Law: Development and Change in International Law," *International and Comparative Law Quarterly,* vol. 38 (October 1989), pp. 850–66.

45. For an earlier discussion of structural and functional subsidiarity see Wolfgang H. Reinicke, *Building a New Europe: The Challenge of System Transformation and Systemic Reform* (Brookings, 1992).

46. Wolfgang H. Reinicke, "Democratic Legitimacy and Transparency of Multilateral Institutions," paper presented at a symposium on "Longer-Term Multilateral Cooperation: Managing a Globalizing Economy," sponsored by the European Commission, DG-I (Brussels, December 8, 1993).

47. Some policymakers may welcome the possibility of regulatory arbitrage, so that outmoded public policies can be eliminated through a process of competitive deregulation, and policymakers can externalize the political costs by blaming it on other countries. This is a dangerous strategy because it only fuels existing antiglobalization sentiment. Getting rid of unnecessary and cumbersome public policies, however, could be one of the goals of global public policy itself.

48. See Jessica T. Mathews, "Power Shift," *Foreign Affairs,* vol. 76, no. 1 (January-February 1997), pp. 50–66; James Cameron and Ruth Mackenzie, "State Sovereignty, Non-Governmental Organizations and Multilateral Institutions," paper prepared for the Council on Foreign Relations Study Group on Sovereignty, Non-State Actors and a New World Politics, January 30, 1995. Nongovernmental organizations were, however, "less successful in ensuring that their goals were reflected in the convention," according to Jill Jäger, "The Lessons, Impacts and Implications of the Role of Non-State Actors in the Climate Treaty," paper presented to the Council on Foreign Relations Study Group on Sovereignty, Non-State Actors and a New World Politics, March 1995.

49. For a discussion of the potential role of foundations in this process see Wolfgang H. Reinicke, "Cooperation among Foundations," in Volcker Then, ed., *The Work of Operative Foundations: Strategies—Instruments—Perspectives* (Gütersloh, Germany: Bertelsmann Foundation Publishers, 1997). A prominent example from the United States is foundations. For some background see Lester M. Salamon and Helmut K. Anheier, *The Emerging Nonprofit Sector: An Overview* (Manchester University Press, 1996).

99. This equipment was used by the International Atomic Energy Administration to determine that North Korea had embarked on a program to develop nuclear weapons.

100. Confidential business information includes formulas, drawings, patterns, techniques, price codes, customer lists, studies, and much else. See Office of Technology Assessment, *The Chemical Weapons Convention: Effect on the United States Chemical Industry* (Washington: GPO, 1993); Burrus M. Carnahan, "Chemical Arms Control, Trade Secrets, and the Constitution: Facing the Unresolved Issues," *International Lawyer,* vol. 25, no. 1 (Spring 1991), pp. 167–86. Although a variety of international treaties and agencies such as the World Intellectual Property Organization deal with the protection of intellectual property, and the issue has been at the top of the agenda of the World Trade Organization, they do not deal with this issue. For some background on intellectual property protection see Kenneth W. Dam, "The Growing Importance of International Protection of Intellectual Property," *International Lawyer,* vol. 21, no. 3 (Summer 1987), pp. 627–38.

101. On the other hand, one might argue that the growing number of strategic alliances and the increasing internationalization of R&D have somewhat mitigated the threat of a breach of confidentiality at this stage in the product cycle.

102. For a discussion of the differences between the two see Barry Kellman, David S. Gualtieri, and Edward E. Tanzman, "Disarmament and Disclosure: How Arms Control Verification Can Proceed without Threatening Confidential Business Information," *Harvard International Law Journal,* vol. 36, no. 1 (Winter 1995), pp. 71–126.

103. Kellman, Gualtieri, and Tanzman, "Disarmament and Disclosure," pp. 114–25.

104. On the role of business in the development of the CWC, see, for example, Amy Smithson, "Implementing the Chemical Weapons Convention: Counsel from Industry," *Report No. 10* (Washington: Henry L. Stimson Center, January 1994); Business Executives for National Security, *Making Americans Safer: The Case for the Chemicals Weapons Convention (CWC)* (Washington, Spring 1996).

105. OTA, *Chemical Weapons Convention*, p. 10.

106. *Convention on the Prohibition of the Development, Production and Stockpiling and Use of Chemical Weapons, Annex on the Protection of Confidential Information.*

107. See Kellman, Gualtieri, and Tanzman, "Disarmament and Disclosure," pp. 114–25, for a critique and proposals for improvement.

108. Nine seats are allotted to Africa, nine to Asia, five to eastern Europe, seven to Latin America and the Caribbean, and ten to a group that includes western Europe and North America. The forty-first member is chosen on a rotating basis from Asia or from Latin America and the Caribbean.

109. Note, however, that the United States has reached a political agreement within its group that it "will have a permanent seat on the Executive Council." See *Chemical Weapons Convention: Message from the President of the United States,* Treaty Doc. 103-21 (GPO, 1993), p. 49.

110. The question of whether an issue is substantive or not is itself treated as an issue of substance, and hence subject to a two-thirds majority, unless the Executive Council changes that rule, which also requires a two-thirds majority.

111. See, for example, George F. Will, "A Feel-Good Treaty," *Washington Post,* September 8, 1996, p. 6.

112. Probably in response to their increased use by policymakers, scholarly interest in sanctions has grown considerably and produced a series of valuable overviews and analyses. See Chayes and Chayes, *The New Sovereignty;* David Cortright and George A. Lopez, eds., *Economic Sanctions: Panacea or Peacebuilding in a Post–Cold War World?* (Boulder, Colo.: Westview Press, 1995); Lisa Martin, *Explaining International Economic Sanctions* (Princeton University Press, 1992); Gary Clyde Hufbauer, Jeffrey J. Schott, and Kimberly Ann Elliott, *Economic Sanctions Reconsidered,* 2nd ed. (Washington: Institute for International Economics, 1990); Donald L. Losman, "Good Intentions Gone Bad: Punitive Trade Embargoes Are Appealing, but They Don't Achieve Our Goals," *Washington Post,* October 6, 1996, p. C3.

113. Bruce W. Jentleson, "Economic Sanctions: Post–Cold War Policy Challenges," working paper prepared for the Committee on International Conflict Resolution, National Research Council, June 17, 1996, p. 11.

114. For an interesting argument that somewhat qualifies this commonly accepted generalization and holds that unilateral sanctions can have some effect despite global economic integration, see Kenneth A. Rodman, "Sanctions at Bay? Hegemonic Decline, Multinational Corporations, and U.S. Economic Sanctions since the Pipeline Case," *International Organization,* vol. 49, no. 1 (Winter 1995), pp. 105–37.

115. Daniel N. Nelson, "Seeking International Consensus," *Foreign Service Journal,* vol. 67, no. 11 (November 1990), pp. 26–27.

116. Sanctions on Yugoslavia, for example, had considerable adverse effects on neighboring countries. See Milan Ruzicka, "Embargo on Yugoslavia Echoes through Balkans," *Journal of Commerce,* August 16, 1993, p. 1A, 8A.

117. John Stremlau, *Sharpening International Sanctions: Toward a Stronger Role for the United Nations, A Report to the Carnegie Commission on Preventing Deadly Conflict* (New York: Carnegie Corporation of New York, November 1996).

118. U.S. Department of State, *Patterns of Global Terrorism, 1995* (Washington: GPO, April 1996).

119. Wolfgang H. Reinicke, "Combating Terrorism: What Works? What Doesn't?" statement to a Policy Impact Panel hosted by the Council on Foreign Relations, Washington, October 11, 1996.

120. Charles Perrow, *Normal Accidents: Living with High Risk Technologies* (New York: Basic Books, 1984).

Chapter 7

1. Jessica T. Mathews, "Power Shift," *Foreign Affairs*, vol. 76, no. 1 (January/February 1997), pp. 50–66.

2. Anne-Marie Slaughter, "The Real New World Order," *Foreign Affairs*, vol. 76, no. 5 (September/October 1997), pp. 183–97.

3. Slaughter, "The Real New World Order," p. 184.

4. Karl Kaiser raised this issue over twenty-five years ago by distinguishing between international and transnational politics. See Karl Kaiser, "Transnational Pol-

itics: Toward a Theory of Multinational Politics," *International Organization*, vol. 25, no. 4 (Autumn 1971), pp. 790–817. For a more recent treatment of this subject, see David Held, *Democracy and the Global Order* (Stanford University Press, 1995).

5. This is not to underestimate the importance of the many regional integration projects now under way, such as MERCOSUR (the Southern Common Market) in South America, the proposed ASEAN free trade area, and the SADC (Southern African Development Community). All are important efforts at reducing the emphasis on external sovereignty and should be strongly encouraged and supported.

6. Thus, even in the Middle East, where territoriality continues to dominate the definition of security, efforts are under way to reduce the emphasis on external sovereignty and the potential for violent conflict. At the forefront of these efforts are institutions such as the Middle East Development Bank, which is now officially registered with the United Nations and has been authorized by Congress.

7. World Resources Institute, United Nations Environment Program, and United Nations Development Program, *World Resources 1994–5* (Oxford University Press, 1994), pp. 28–30.

8. World Bank, *Private Capital Flows to Developing Countries: The Road to Financial Integration* (Oxford University Press, 1997), p. 5.

9. Robert Jackson called this "positive sovereignty," the active ability to act and collaborate domestically and internationally, as opposed to negative sovereignty, the mere passive freedom from outside interference. Robert H. Jackson, *Quasi-States: Sovereignty, International Relations and the Third World* (Cambridge University Press, 1990), pp. 26–31.

10. For some background, see R. B. J. Walker Saul H. Mendlovitz, eds., *Contending Sovereignties: Redefining Political Community* (Lynne Rienner Publishers, 1990), especially chapter 9; R. B. J. Walker, "Sovereignty, Identity, Community: Reflections on the Horizons of Contemporary Practice," pp. 159–85; see also Thomas J. Biersteker and Cynthia Weber, eds., *State Sovereignty as Social Construct* (Cambridge University Press, 1996).

11. See, for example, Hendrik Spruyt, "Institutional Selection in International Relations," *International Organization*, vol. 48, no. 4 (Autumn 1994), pp. 527–57.

12. J. Samuel Barkin and Bruce Cronin, "The State and the Nation: Changing Norms and the Rules of Sovereignty in International Relations," *International Organization*, vol. 48, no. 1 (Winter 1994), pp. 107–30.

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