Globalisation and state power: The question of context

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Abstract

The phenomenon of economic globalisation, broadly defined as the increase in the magnitude and extent to which economic relations transcend national boundaries, has underpinned many important developments in the global economy in recent decades. This carries significant implications to the management of economic affairs, not least with regards to the ability of states to maintain control of economic relations within their borders. While some scholars advance the thesis that there has been an erosion of state power – a ‘retreat of the state’ – in the face of globalising forces, others contend that the state remains the central force in the global economy. This essay critically engages existing literature on globalisation and state power. It finds that the relationship between these two forces is one of mutual constraints and reinforcements, and thus an objective answer to the question of ‘retreat’ is more difficult than commonly thought. More importantly, this question is unable to provide a comprehensive picture of the position of the state in the globalised world as it fails to take into account certain key developments in the global economy as well as the existing variations in the nature of the state. As such, the essay proposes a new paradigm for the study of the influence of globalising forces on the state that frames globalisation as providing a distinct context for the exercise of state power.

One of the most significant developments in the world economy over the last few decades has been the process of globalisation. Although a much-contested concept, in the broadest sense, economic globalisation refers to the increase in the magnitude and extent to which economic relations transcend national boundaries.¹ This raises important questions regarding the implications of such changes, not least one which concerns the ability of the state to maintain control of economic affairs within its borders. Some scholars, most notably Susan Strange, put forward the thesis that there has been an erosion of state

¹ Georg Sorensen, *The Transformation of the State: Beyond the Myth of Retreat* (Basingstoke: Palgrave Macmillan, 2004), 23.

power – a ‘retreat of the state’ – in the face of globalising forces.² Critics of this thesis contend that states remain the dominant force in the global economy. It is neither possible nor advisable to conclude that there exists any general trend in the power of the state. The contemporary period of globalisation should instead be seen as providing a new context in which state power is exercised. This essay critically engages the ‘retreat of the state’ thesis and assesses three major dimensions in state–globalisation relations which the thesis has not adequately addressed: possibilities for mutual benefits; ambiguous causal connections; and the issue of baseline for comparison. It argues that even if such dimensions can be brought into the equation, it is inevitably a problematic undertaking to objectively affirm whether the state in general has been in ‘retreat’ due to the lack of impartial standards for evaluation. This essay then explains how the question of ‘retreat’ makes it hard to visualise how globalisation has transformed the nature of state power because of two main reasons: it is unable to capture important developments in the global economy, and it risks neglecting the existing diversity in the nature of the state. The essay concludes by making the case for context as the more appropriate way to frame the relationship between states and globalising forces.

Observers who diagnose a ‘retreat of the state’ identify an inverse relationship between state power and the intensity of globalisation. The general claim put forward by ‘retreat’ scholars is that the magnification and extension of economic relations across traditional boundaries has eroded the ability of states to autonomously influence transactions within their own borders. This eclipse of state power plays out through three main processes: the proliferation of international trade; the transnational integration of production processes; and the worldwide flow of finance.³ The technological advances that propel globalisation allow non-state economic actors such as multinational corporations, private banks, and investors – the direct drivers behind such processes – to easily move their assets to the most favourable location to maximise returns.⁴ In this competitive environment, states must be more accountable to such actors or risk facing debilitating economic penalties. In particular, governments need to eventually abandon interventions that are deemed inimical to the operation of free markets, such as the provision of welfare or the protection of the

2 Susan Strange, *The Retreat of the State: Diffusion of Power in the World Economy* (Cambridge: Cambridge University Press, 1996).

3 Geoffrey Garrett, ‘Global Markets and National Politics: Collision Course or Virtuous Circle?’ *International Organization* 52, no. 4 (1998): 787–824.

4 Vincent Cable, ‘The Diminished Nation-State: A Study in the Loss of Economic Power,’ *Daedalus* 124, no. 2 (1995): 25–26.

environment.⁵ Many analysts thus sustain that governments are faced with a 'race to the bottom' defined by the convergence of state regulation standards to the lowest common denominators.⁶

The relationship between globalising forces and state power is more complicated than the 'retreat of the state' thesis suggests. The constraints that globalisation places on states are often exaggerated. A survey of empirical evidence shows that a 'race to the bottom' has not occurred. Duane Swank demonstrates how economic openness has not exerted overwhelming pressures on states in the Organisation of Economic Co-operation and Development (OECD) to retrench welfare regimes. OECD states, instead, retain considerable policy autonomy to respond to domestic demands for more intervention to correct inequities in the markets.⁷ Similarly, there is evidence in other spheres, including trade, financial integration, and monetary sovereignty in which states retain considerable 'room to move' in the face of globalising forces.⁸

Even if 'retreat' scholars may have indeed overstated the constraints of globalisation, the more important oversight in their argument is the assumption that the relationship between state power and globalising forces is one that is necessarily antagonistic. The case can be made that mutual benefits can be derived from the interaction between these two variables. There is little debate that governments are needed to perform essential functions such as enforcing the rule of law and protecting property rights, but they may also actively facilitate the efficient distribution of resources. Calculated state intervention can generate competitive advantage to promote trade growth.⁹ This has been demonstrated by the experience of East Asian economies like Korea and Taiwan in the last few decades. Although they have pursued economic development through a variety of strategies, there is a broad consensus that governments have played a key role in their success.¹⁰ Government programmes can also benefit multinational producers by improving human and physical capital.¹¹ Even in the financial sector where private power is supposed to be the most influential relative to the state, it is arguable that state regulation can be useful to facilitate the efficient

5 Daniel W. Drezner, 'Globalization and Policy Convergence,' *International Studies Review* 3, no. 1 (2001): 53–78.

6 Ibid.

7 Duane Swank, 'The Effect of Globalization on Taxation, Institution, and Control of the Macroeconomy,' in *The Global Transformation Reader: An Introduction to the Globalization Debate*, ed. David Held and Anthony McGrew, Second Edition (Polity Press, 2003), 403–420.

8 Layna Mosley, 'Room to Move: International Financial Markets and National Welfare States,' *International Organization* 54, no. 4 (September 2000): 737–773; Cable, 'The Diminished Nation-State: A Study in the Loss of Economic Power'; Benjamin J. Cohen, 'Money in a Globalised World,' in *The Political Economy of Globalisation*, ed. Ngaire Woods (New York: St. Martin's Press, 2000), 77–106.

9 Peter Evans, 'The Eclipse of the State?: Reflections on Stateness in an Era of Globalisation,' *World Politics* 50, no. 1 (October 1997): 67–68.

10 Anthony Payne and Nicola Phillips, *Development* (Great Britain: Polity Press, 2010), 98–110.

11 Garrett, 'Global Markets and National Politics: Collision Course or Virtuous Circle?' 801.

operation of market forces. This is especially applicable after the recent global financial crisis (GFC), when it has been amply demonstrated that the global flow of finance can be debilitating when left solely in private hands.¹² Thus, it is possible to construct a counter-narrative that the three globalising processes that are often thought to inevitably cause the 'retreat of the state' can actually benefit from more state power.

Globalisation can even strengthen states in certain aspects. Emerging economies such as China have taken advantage of the transnational flows of finance and commerce to exert influence on global markets through several channels, including state-owned enterprises, commodity revenues, foreign reserves and sovereign wealth funds.¹³ Furthermore, 'retreat' scholars have commonly disregarded an important dimension of economic relations: the mobility of labour. There has been a general increase in barriers to immigration in developed economies, except for skilled or wealthy individuals.¹⁴ One possible explanation for this trend concerns the effect of domestic pressure to protect wages and national identity from the potentially disruptive effects of globalisation.¹⁵

Secondly, the cause–effect relationship between the state power and globalising forces must be re-evaluated. Many 'retreat' accounts, including that of Susan Strange, see states only as passive 'victims' rather than active agents in the process of globalisation.¹⁶ Even if it can be accepted that the state has been in decline, it is necessary to establish that it is globalisation that is responsible for this trend to logically validate the 'retreat' thesis. Yet, technological innovations alone cannot explain why globalisation has occurred; governments have made deliberate choices to permit transnational economic relations. The high level of financial integration witnessed today is a product of the movement by many states to lower restrictions to the flow of finance across their borders, which started in the 1980s.¹⁷ A major motivation behind this shift was the growing acceptance of the neoliberal doctrine in economics which contends that state intervention is detrimental to economic development.¹⁸ Here, it is useful to reflect on the notion of 'retreat'. It is only possible to conclude that the state has been in 'retreat' if its capacities to shape economic outcomes have actually declined,

12 John Ravenhill, 'Economic Interdependence and the Global Financial Crisis,' in *New Directions in Political Science: Responding to the Challenges of an Interdependent World*, ed. Colin Hay (Palgrave Macmillan, 2010), 148–166.

13 Brad Setser, 'A Neo-Westphalian International Financial System?' *Journal of International Affairs* 62, no. 1 (Fall/Winter 2008): 17–34; Ian Bremmer, 'State Capitalism Comes of Age: The End of the Free Market?,' *Foreign Affairs* 88, no. 3 (June 2009): 40–55.

14 Paul Hirst and Grahame Thompson, *Globalisation in Question: The International Economy and the Possibilities of Governance* (Cambridge, UK: Polity Press, 1996), 22–31.

15 Cable, 'The Diminished Nation-State: A Study in the Loss of Economic Power,' 38–39.

16 Strange, *The Retreat of the State: Diffusion of Power in the World Economy*, 12–15.

17 Payne and Phillips, *Development*, 86–98.

18 Ibid.

not if it still has such capacities but has opted not to deploy them. The latter can explain many changes in state–market relations. For instance, when the GFC posed a challenge to the predominant neoliberal ideology, leaders in the push towards financial liberalisation, including the US and Britain, aggressively reasserted themselves in financial markets by taking high stakes in financial corporations.¹⁹ In fact, some policymakers have deliberately misrepresented globalisation as an exorable force to justify unpopular decisions.²⁰ Even the misinformed belief that globalisation is an inexorable force may push states to implement policies consistent with the retreat thesis. This finds evidence in many policy debates on European integration.²¹ Any comprehensive account of the relationship between state power and globalising forces must be aware of such ambiguities in the causal connection between these two variables.

Thirdly, to say that there has been a general ‘retreat of the state’ raises the question: what is the baseline used for comparison? With respect to a historical baseline, the retreat thesis has overlooked important developments in the history of the global economy. Economic globalisation is not a recent phenomenon. In certain ways, the intensity of transnational economic relations during the Gold Standard period is just as, if not greater than, that which has been observed over the last few decades. For example, the significance of trade relative to Gross Domestic Product (GDP) of OECD countries was generally higher in 1913 than in 1973.²² In fact, the debate on the loss of state autonomy is not entirely novel. At the beginning of industrial capitalism, classical economists such as Adam Smith and David Hume had already predicted that the state would be restrained by the intensified capital mobility.²³ In retrospect, it is clear that there were certain periods since then, such as during the Great Depression, in which states had extensive control over national economies.²⁴ Furthermore, it is necessary to query the reference point in terms of state power from which the measurement is made. If states proved to be in control in previous periods of globalisation, in what ways do the current economic conditions really present new challenges to state power? As ‘retreat’ scholars have failed to satisfactorily address this question of baseline, they have not provided an adequate account of the limits globalisation places on state power.

19 Helen Thompson, ‘The Character of the State,’ in *New Directions in Political Science: Responding to the Challenges of an Interdependent World*, ed. Colin Hay (Palgrave Macmillan, 2010), 137–138.

20 Layna Mosley, ‘Globalisation and the State: Still Room to Move?,’ *New Political Economy* 10, no. 3 (2005): 359–360.

21 Colin Hay and Ben Rosamond, ‘Globalisation, European Integration and the Discursive Construction of Economic Imperatives,’ *Journal of European Public Policy* 9, no. 2 (2002): 147–167.

22 Hirst and Thompson, *Globalisation in Question: The International Economy and the Possibilities of Governance*, 26–31.

23 Garrett, ‘Global Markets and National Politics: Collision Course or Virtuous Circle?,’ 793.

24 Hirst and Thompson, *Globalisation in Question: The International Economy and the Possibilities of Governance*, 34–40.

What is clear from the above discussion is that the 'retreat' thesis has been misguided in adopting a narrow view of the relationship between state power and globalisation. Nonetheless, the centrality of the state in the contemporary global economy should not be overemphasised. It is sound to compare the current period of globalisation with that in the past to highlight a deficiency in the 'retreat' thesis, but it would be mistaken to conclude from such a comparison that the present state of affairs is 'business as usual'. The existing period of globalisation is unique in many ways. The amount of private capital and its level of mobility are exceptional; the degree of functional integration between global production and distribution processes is also unprecedented.²⁵ Noting the possibilities that states have been empowered by such developments, some state-centric scholars believe that globalisation should be conceptualised as the realist competition between states for power in the world economy.²⁶ However, the power of non-state economic actors is by no means negligible. The Asian financial crisis demonstrates that governments' attempts to balance against the mobilisation of private capital can be futile.²⁷ Even if it can be argued that states remain in control, the very fact that policymakers have to factor in the potential reactions of private forces means it is imprudent to look at states alone in analyses of globalisation.

As demonstrated, the relationship between state power and globalising forces is one of mutual constraints and reinforcements. If it can indeed be measured whether there has been a general 'retreat of the state', it is necessary to weigh the evidence from both sides. However, there exist no objective criteria for impartial evaluation. Any sort of scale that can be devised has to rely on the arbitrary assessment of conflicting elements that would certainly be controversial. For example, while most would view that neoliberal economic reforms entail a smaller role for the state, Sorensen sees that states have actually been strengthened in such processes through more regulatory power.²⁸ It might not be possible to satisfactorily settle the debate.

More fundamentally, it is necessary to take a step back and critically assess whether the question of 'retreat' necessarily provides a comprehensive view of the place of the state in a globalised world. Firstly, the debate is not able to capture some important developments in the contemporary international economic order. The challenges of a globalised world economy create incentives

25 Bank for International Settlements, *Triennial Central Bank Survey: Foreign Exchange and Derivative Market Activity in 2007* (Basle: Bank for International Settlements, December 2007); John H. Dunning, 'Globalization and the New Geography of Foreign Direct Investment,' in *The Political Economy of Globalisation*, ed. Ngair Woods (New York: St. Martin's Press, 2000), 20–53.

26 For examples of such claims, see Setser, 'A Neo-Westphalian International Financial System?' and Bremmer, 'State Capitalism Comes of Age: The End of the Free Market?.'

27 Cohen, 'Money in a Globalised World,' 98–103.

28 Sorensen, *The Transformation of the State: Beyond the Myth of Retreat*, 32–34.

for new forms of governance at the international level. Innovations in communication and transportation technologies have aided the emergence of interstate institutions and networks like the World Trade Organization, which manages transnational economic relations.²⁹ The global civil society has also developed, which consists of transnational relations between non-state actors in the form of non-governmental organisations or professional associations.³⁰ The emergence of such new developments has significantly altered the ways actors interact in the world economy and this has transformed the nature of state power.³¹ The point of this essay is not to explore these discussions in depth, but to highlight the fact that this transformation cannot be captured by the simple dichotomy that the state is winning or losing.

Secondly, even if it was possible to settle whether there has been a general retreat of the state, the conclusion risks misrepresenting 'the state' as a uniform identity despite existing diversity in the nature of the state. Here, the question is not which baseline should be used for evaluation, but whether a baseline can be used at all. Most debates around the 'retreat' thesis can make general claims about state power because they primarily use advanced states in Western Europe, North America and Japan as the reference point.³² These states share developed features with regards to government, nationhood, and economy.³³ Such analyses marginalise a significant number of states whose developments differ significantly from that of advanced states. In the least developed states, especially those in sub-Saharan Africa, governments are often controlled by corrupt rulers who appropriate economic benefits only for themselves and their clients.³⁴ Another group of states, including China and India, have not developed the full structure of the advanced states, but have been influencing the world economy in significant ways.³⁵ A comprehensive analysis of the relationship between the state and globalising forces must take into account such variations and thus cannot be restricted to any general trend.

If it is neither possible nor desirable to question whether the state has been in retreat, then how should the relationship between the state and globalising forces be conceptualised? The answer is that the contemporary period of globalisation sets a new *context* for the exercise of state power. This context is characterised by the intensified level of interaction between economic agents

29 Ibid., 60–61.

30 Jan Aart Scholte, 'Global Civil Society,' in *The Political Economy of Globalisation*, ed. Ngaire Woods (New York: St. Martin's Press, 2000), 173–201.

31 For more in-depth discussions, see Sorensen, *The Transformation of the State: Beyond the Myth of Retreat*, 59–82 and Scholte, 'Global Civil Society.'

32 Sorensen, *The Transformation of the State: Beyond the Myth of Retreat*, 46.

33 Ibid., 7–14.

34 Ibid., 51–58.

35 Ibid., 142–160.

aided by technological innovations that increases the extent and speed with which transnational relations can be conducted. The new focus on context shifts the point of reference away from the state. As such, it is now possible to consider broader forms of interaction between the state and other forces in the world economy. It is also no longer necessary to assume a degree of uniformity in the nature of the state. Accordingly, states with a variety of characteristics can now be analysed with respect to how their power is transformed by new developments brought about by globalisation. If studies on the relationship between the state and globalising forces could be framed by the context in which it occurs instead of the question of 'retreat', much more valuable insights would be produced.

Over the last few decades, the nature of state power has undergone important changes owing to the process of economic globalisation. In attempting to conceptualise such changes, scholars who argue that there has been a general 'retreat of the state' have misguidedly adopted a narrow view of the dynamics that are taking place. If one takes the question of 'retreat' as the starting point for analysis, it is not possible to reach an objective assessment on the new arrangements between states and globalising forces. In fact, it may not even be advisable to ask such a question in the first place, because it is unable to address broader forms of arrangements between states and other actors in the world economy, and it unrealistically assumes a degree of uniformity in the nature of the state. Scholars who attempt to conceptualise the current state–globalisation arrangements need to move on from arguing whether the state has been in 'retreat'. The more appropriate question to ask is how the context in which state power is exercised has been transformed in the current period of globalisation. It is necessary to move the point of reference from the state if one wishes to produce a more comprehensive account of the relationship between states and globalising forces. Only then is it possible to establish meaningful examinations to produce useful insights into the contemporary world economy.

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