CHAPTER 7

THE STATE

Who controls the economy: firms or governments?

Aims

- To understand how state and supra-national institutions shape economic processes
- To recognize the different kinds of states within the global economy
- To appreciate the changing role of the state in an era of globalization
- To demonstrate why geographical scales matter in the reconfiguration of the state.

7.1 Introduction

On 22 June 2005, China National Offshore Oil Corporation (CNOOC) made an unsolicited US$18.5 billion cash offer to woo Unocal (the Union Oil Company of California) from the latter's American suitor, Chevron. The bid apparently made a lot of sense to CNOOC, China's third largest state-owned oil company, because a successful takeover would allow it to tap into Unocal's huge oil and natural gas reserves in Asia. CNOOC's cash bid was also 15 per cent more than Chevron's offer of US$16.5 billion. Three days after CNOOC had announced its intention to discuss its takeover bid with Unocal and the US regulator, however, a group of 41 US Congressional representatives asked the US government to closely scrutinize CNOOC's bid on the grounds that China might gain control of precious US energy resources at a time of sky-high oil prices and growing tensions over China's huge trade surplus with the US. The representatives also asked the US Treasury Department to review the possible stripping of Unocal's core technology and assets by CNOOC. As the political pressure mounted, the House of Representatives voted in favour of forbidding the Treasury Department from using federal funds to process a recommendation

for the approval of CNOOC's bid. On 3 August 2005, CNOOC decided to drop its bid for Unocal, blaming US political opposition to the deal.

This example of the proposed acquisition of a privately-owned US oil company by its state-owned Chinese counterpart illustrates the *inherent limits* to the global reach of such giant corporate entities: even though CNOOC's bid was financially more attractive than Chevron's offer, the final verdict effectively remained in the hands of the US state. Like other failed attempts to buy into 'corporate America', this example showcases the complex political-economic issues involved in the globalization of firms *and* the continued importance of nation-states in the political-economic governance of their domestic economies. It also reiterates the fact that the nation-state retains important regulatory controls of its national space-economy in an era of accelerated globalization of economic activities. With large firms becoming increasingly globalized, they are likely to confront different national regulatory regimes and to engage in tussles over the control of their economic interests *vis-à-vis* the nation-state.

As this suggests, as we move into Part III, we are switching the focus to the key *actors* in economic space, and the role they play in creating economic geographies: the four chapters focus on the role of the state, transnational corporations, workers and consumers, respectively. As we know from our understanding of the commodity chain developed in Chapter 4, in reality these actors are interconnected and interdependent. In this Part of the book, however, we focus on each actor individually in order to explore their importance and influence in more detail.

In this chapter we will explore the extent to which the state remains a powerful shaper of economic geographies. We will profile the ongoing role of the nation-state in economic governance, and shed light on the changing abilities of nation-states to address political-economic processes such as uneven development, economic restructuring, and poverty. This integral role of the nation-state in the modern economy highlights an important point – the economy is intermeshed with the *politics* of the nation-state at a variety of *geographical scales*. As will be explained more explicitly later in this chapter, these state politics may be about *inter-national* geopolitical imperatives such as the failed CNOOC bid above, debates within a particular *macro-regional* grouping of states such as the European Union, the *intra-national* politics of resource transfers and investment within nation-states, or *local* politics. In all instances, we simply cannot underestimate the continued significance of the state for our understandings of the dynamics of economic development.

The chapter is divided into five major sections. The next section (7.2) introduces the contemporary debate on the (ir)relevance in economic governance. Here, we present some grossly oversimplified views on the nation-state championed by enthusiastic proponents of globalization known as *ultra-globalists*. In Section 7.3, we offer an explanation of the dependent relationships between

states and firms and discuss different state functions that concern this state-firm relationship. This section explains the mechanisms through which the state manipulates the economy via its 'visible hand'. Section 7.4 further elaborates on the *geographical diversity* of nation-states in today's global economy. We show that state functions tend to work out differently in states dominated by contrasting political-economic ideologies in different places. In Section 7.5, we demonstrate how these state functions are changing in relation to the reconfiguration of state capacity at different geographical scales, while we then move to on problematize the state somewhat by considering how control over its geographical territory can in reality be limited and partial (Section 7.6). Throughout the analysis, we emphasize both state functions and their different manifestations in different *places* (i.e. their geographies).

7.2 The 'Globalization Excuse' and the End of the Nation-state?

We begin by reviewing how the nation-state has become increasingly viewed as irrelevant in today's global economy. This is commonly known as the *ultra-globalist* position, particularly promoted through the popular accounts offered by business gurus such as Kenichi Ohmae (1995) and popular journalists such as Thomas Friedman (1999). The following quotation sums up this position nicely:

> What is new today is the degree and intensity with which the world is being tied together into a single globalized marketplace and village. What is also new is the sheer number of people and countries able to partake of today's globalized economy and information networks, and to be affected by them . . . This new era of globalization . . . is turbocharged.
>
> (Friedman, 1999: xvii, xviii)

In this view, globalization is not just a phenomenon to be reckoned with. More importantly, it is a force that integrates capital, technology, and people in a 'borderless' world. Globalization, we are told, thus creates a single global market and a gigantic 'global village' that is neither stoppable nor controllable by individual nation-states. In outlining this *new* global system, these ultra-globalists have created a popular imagination for the end of the nation-state as institutions of political-economic governance (see also Section 2.5).

This explanation of the demise of the nation-state can be thought of as the 'globalization excuse', i.e. explaining phenomena such as the reconfiguration of state functions by invoking an external factor known as globalization. Globalization becomes the convenient explanation for whatever happens to the

nation-state, not as something (e.g. a set of processes) that needs to be explained. Indeed, we can observe this line of explanation throughout the media, popular books, political speeches, and so on. Typically, this explanation is offered in the following manner: 'Because of globalization, we have to . . .'.

These ultra-globalist stories often start with technological innovations in transport and communications that facilitate global flows of capital, people, information, and culture – all different aspects of globalization (see also Chapter 5). In the economic sphere, giant corporations and international financial institutions are claimed to be orchestrating global flows of capital and technology. This rise of corporate power and global finance has been presented as one major explanation for the demise of the nation-state. The global reach of these corporations and institutions has been described as 'effortless' and 'limitless': the world is their oyster. In some extreme cases, the annual sales of these large global corporations (e.g. Wal-Mart, General Motors, and Toyota) are compared with the annual production of national economies to demonstrate their corporate power.

In this account, the nation-state is deemed powerless in its capacity to control its national economic affairs (e.g. inward investments) and its own corporations (e.g. outward investments). In deciding on whether to invest in a particular country, these global corporations often play one nation-state off against another in order to obtain maximum benefits such as political support, financial incentives, lax environmental regulation, and market access. The successful bargains achieved by these corporations in both advanced industrialized countries and poor developing countries has led to the universalistic claim by ultra-globalists that host nation-states are no longer able to effectively govern their economies. Meanwhile, the successful global reach of these corporations is seen to offer supporting evidence against the nation-state's relevance in domestic economic regulation. This occurs primarily when global corporations are capable of evading the regulatory and monitoring systems of particular countries of origin.

While we have already introduced the grounded nature of technological change in Chapter 5 and will offer a more nuanced alternative to this uncritical view of the global reach of transnational corporations in Chapter 8, it is useful to point out here that such a view has widespread purchase in the *political arena*. Many politicians jump on this globalization 'bandwagon' in order to rationalize what is occurring within their territories. In this way, globalization becomes a 'scapegoat' used to explain the failure of economic policies or to justify policy interventions. 'Because of globalization' and 'there is no alternative (TINA)' explanations are commonly invoked today in the report cards of most governments and authorities throughout the world. By willingly acknowledging the inexorability of globalization, some political leaders are seemingly surrendering the various economic policy toolkits that they used to deploy so effectively to manage national economies.

7.3 Functions of the State (in Relation to the Economy): Long Live the State!

Is the nation-state really withering away as these ultra-globalists allege? Not really. In this chapter, we argue for an alternative and more nuanced economic-geographical reading of the role of the nation-state in today's global economy. The state–firm nexus continues to produce all kinds of *political-economic geographies*, ranging from how certain regions and electorates receive favourable treatment because of intra-national politics, to how the national government intervenes to prevent 'encroachment' of foreign companies (e.g. the CNOOC example above). As shown in this and the next section, the nation-state performs a range of important functions in relation to the economy, though its capacity to execute these functions depends on the historical and geographical context of the state in question.

More specifically, our broader theoretical rationale for the intertwined role of nation-states and politics in governing the modern economy can be understood in three ways. First, we reject the ultra-globalist position that polarizes the nation-state and the global firm. In particular, we note that both firms and markets are engaged with the nation-state in a *mutually dependent* relationship. Firms need the state to function in the five areas described in this section, while the state's political legitimacy will be challenged if it fails to deliver enough economic development and opportunities through the activities of firms and markets within its borders.

Second, the ultra-globalist story depicting the nation-state as being the same everywhere is clearly a gross oversimplification of reality. Indeed, the nation-state comes in different shapes and sizes; there are many *different varieties* of nation-states (see next section) and they cannot all be described as 'powerless'. In arguing for this geographical diversity of nation-states, we bring into our account the highly uneven nature of the global political economy (see also Chapters 2 and 3). This recognition of geographical diversity is also important because it showcases different *power relations* within the global economy. While some nation-states may succumb to global forces and hence their stories can be seen to corroborate the claims of ultra-globalists, there are many other nation-states that consciously shape and fashion globalization processes to their own benefit. In fact, some nation-states have arguably been reshaping the global economy in their own image in recent decades (e.g. the US).

Third, and perhaps most importantly, we subscribe to a more measured view of the nation-state that understands it as always remaking itself and undertaking necessary adjustments to new global realities. In this view, the nation-state does not exist as a static body of institutions and norms. On the contrary, it is a dynamic entity capable of self-transformation for the sake of political renewal and, sometimes, survival. We should not be misled by the ultra-globalist

position into seeing globalization as the dynamo reshaping the global economy and the nation-state as the passive victim. In the penultimate section (7.5), we shall consider in detail some of these reconfiguration processes of the nation-state.

To begin our unpacking of the intermeshing of state politics and the modern economy, we need to understand some of the most fundamental issues in relation to state functions – how do nation-states interact with firms and markets? Here, we introduce the full range of economic functions performed by modern nation-states today and show how they can work out very differently in *different places*. We will emphasize their geographical concreteness rather than abstract characteristics. While the state is also expected to take care of many non-economic functions (e.g. national defence, foreign policy, cultural development, law and order, public health, and so on), we have identified five important state functions in managing the national economy:

- ultimate guarantor and institution of last resort;
- regulator of economic activities;
- architect of the national economy;
- owner of public enterprises;
- provider of public goods and services.

Ultimate guarantor

Markets can fail miserably. It is in these situations that the state steps in, thus becoming an institution of *last resort* and the ultimate guarantor. While the market may appear to be self-organizing, it can fail in the wake of unforeseeable forces (e.g. financial crises and natural disasters). This is the most basic role for the state, and the one which is most recognized by neoclassical economics. We can think of four important aspects to this role:

1. *Dealing with financial crises*: market failure is particularly likely in the financial industry where bankruptcy of major financial institutions can result in severe financial crises in different national economies. Whereas some nation-states in advanced capitalist economies choose to leave these bankruptcies to the 'creative destruction' of the market mechanism, other states may decide to intervene in the market for political and social reasons. These latter states may seek to avert a banking crisis by offering financial backing to failed banks. For example, the Japanese government stepped in to assist the Long Term Credit Bank of Japan in October 1998 when the latter had collapsed under mounting non-performing loans. Such intervention can help to restore public confidence in the financial system, and stabilize the economy at large.
2. *Guaranteeing national economic instruments*: the international economic credibility of a nation-state in part depends on its ability to maintain the value of its currency and government bonds. For example, US Treasury Bills, a form of government-issued IOU (I Owe You), have strong credibility in the international financial community. Many institutional investors such as pension funds and insurance companies have purchased these Treasury Bills because of their attractive interest payments and the security of repayment upon maturity. In comparison, the bonds issued by many developing countries (e.g. Brazil and Argentina) may be subject to a lot more uncertainty and are therefore less attractive to potential investors. In terms of currencies, states ensure that their currency is the universal standard, or legal tender, accepted in their territory and try to maintain the relative value of that currency. The experiences of some South American countries during the early-to-mid 1990s (e.g. Argentina and Mexico) and some Asian economies in the late 1990s (e.g. Indonesia, Thailand and South Korea) are telling here. In both instances, the nation-states in question were unable to guarantee their national currency with sufficient foreign reserves or gold, resulting in massive depreciation and subsequent financial crises as people sought to rapidly sell reserves of the currency.
3. *Securing international economic treaties*: the nation-state is also important in that no other institutions (e.g. firms and markets) have the political legitimacy to conclude and sign international trade and investment agreements. Nation-states often engage in bilateral free trade agreements (FTAs) with one another in order to advance their common economic interests. By the end of 2005, there were close to 300 such FTAs either in the planning and negotiation stages, or concluded (http://www.wto.org, accessed 1 December 2005). Smaller states such as Singapore have deployed these FTAs highly effectively to expand their economic space and connectivity in the global economy. Nation-states also engage in bilateral investment guarantee pacts in order to protect the commercial interests of their national firms in foreign territories.
4. *Property rights and the rule of the law*: nation-states are also crucial in establishing and maintaining private property rights and upholding the rule of the law through a well-defined legal system. Property rights refer to the right of an individual or a corporate entity to own properties (e.g. land, building, machineries, ideas, designs, and so on) and derive income from these properties. This aspect of state functions defines the quintessential character of *modern capitalism* (see Chapter 3) because without effective property rights, capitalists (individuals or firms) cannot capture profits derived from their properties and therefore do not have any economic incentives to invest in these properties. A nation-state thus has numerous state departments to deal with property rights issues such as land titles, patents and trademarks, and business registries, and it also enacts many laws to protect these property rights.

Regulator

States are also the primary regulators of the economic activities that take place within, and across, their borders. This aspect of state functions can be interpreted in different ways. For those of a pro-market persuasion, the nation-state should simply seek to enable and protect market-driven activities. And yet, the nation-state's primary source of legitimacy originates from its citizens. In turn, it is expected to protect its citizens from harmful or negative effects of the market and firm activities. The nation-state therefore often engages in a wide variety of forms of regulation of economic activities, ranging from economic and environmental to social and ethical considerations:

- *market regulation*: the nation-state ensures the fairness of the market mechanism. The extent to which the state actively regulates market behaviour varies in different national economies. The US, for example, is particularly known for its strong preference for open market competition and anti-monopoly stance. For example, in twentieth-century America, many large corporate empires were broken down into smaller business units in order to prevent excessive market power held by these corporate giants, e.g. the dismantling of Rockefeller's Standard Oil into a few oil giants in 1911, including today's ExxonMobil and Chevron, and the former AT&T into many local 'baby' Bell companies in 1984. Many other nation-states have established fair trade commissions and anti-monopoly units in their departments of commerce to ensure market competition in different industries. This anti-monopoly approach to regulating the market economy can be contrasted with the experience of other nation-states that direct own and operate monopolies, mostly in developing countries. In these latter cases (see the next subsection), the state becomes a direct owner and manager of business enterprises, replacing the market as a primary mechanism of economic governance.
- *regulating economic flows*: the contemporary nation-state plays a very important role in regulating its borders. This function is particularly important in an era of accelerated globalization associated with massive cross-border flows of capital, commodities, people, and information. In regulating capital flows, some states may be very restrictive and do not allow financial capital to enter and leave their countries easily without completing cumbersome regulatory procedures or paying hefty taxes. Border regulation is of particular importance in relation to labour flows. The border crossing point between China's Shenzhen and Hong Kong's Lo Wu shown in Figure 7.1 is the most heavily-used checkpoint between the two administrative systems in one country (China). Millions of people cross this border every year for work, leisure, and social visits. More importantly, however, only a fraction of these people from mainland China are allowed to migrate to Hong Kong on a permanent

Figure 7.1 The border crossing between China's Shenzhen and Hong Kong's Lo Wu
Source: Martin Hess, with permission.

basis. As globalization has intensified, so levels of international migration of various kinds (e.g. short-term/permanent, high skill/low skill) have increased. Increasingly, destination countries (e.g. Canada or Australia) are seeking to regulate the *kinds* of migrants that they allow in, using points systems to assess the skills, qualifications and financial resources that potential migrants can bring into the economy. As another example, the accession of ten Eastern and Central European countries to the European Union in 2005 saw different initial responses from existing member states. While many countries negotiated that they would not have to allow migrants from these states for a set period, by contrast the UK, Ireland and Sweden immediately opened their borders to documented migrants in sectors where there were labour shortages (e.g. construction).

Architect of the national economy

In managing their national economies, most nation-states pursue a wide range of economic policies in order to sustain, shape and promote economic development. These economic policies may be linked to trade, investment, industry, and

TRADE POLICIES

Imports

1. Tariffs
2. Non-tariff barriers
Import quotas
Import licenses
Import deposit schemes
Import surcharges
Rules of origin
Anti-dumping measures
Special labelling and packaging regulations
Health and safety regulations
Customs procedures and documentation requirements
Subsidies to domestic producers of import-competing goods
Countervailing duties on subsidized imports
Local content requirements
Government procurement preference for domestic producers
Exchange rate manipulation

Exports

Financial and fiscal incentives to exporters
Export credits and guarantees
Setting of export targets
State-sponsored overseas export promotion agencies
Establishment of export processing zones and/or free trade areas
Voluntary export restraints through export quotas
Embargo on strategic exports
Exchange rate manipulation

FOREIGN DIRECT INVESTMENT POLICIES

Inward FDI

Government screening of investment proposals
Sectoral restrictions or prohibitions
Ownership restrictions
Requirement for local personnel in managerial positions
Compliance with national codes of business conduct
Insistence on local content of production
Insistence on minimum level of exports
Technology transfer requirements
Locational restrictions or preferences
Restrictions on remittances of capital or profits abroad
Level and methods of taxing profits
Direct promotion of FDI through competitive bidding, overseas promotional agencies, and investment incentives

Outward FDI

Restrictions on capital export (e.g. exchange control regulation)
Necessity for government approval
Direct government ownership in outward FDI
State-level FDI negotiations on behalf of national firms
Direct promotion of outward FDI through overseas promotional agencies and investment incentives (e.g. taxation benefits)

INDUSTRIAL POLICIES

Promotional

Investment incentives: capital- and tax-related
Labour policies: subsidies and training
State procurement policies
Technology policies
Small firm policies
Policies to encourage industrial restructuring
Policies to promote investment

Regulatory

Merger and competition policies
Company legislation
Taxation policies
Labour market regulation: labour union and immigration policies
National technical and product standards
State ownership of production assets
Environmental regulations
Health and safety regulations

Criteria affecting the selectivity of these policies

1. Particular sectors of industry
To bolster declining industries
To stimulate new industries
To preserve key strategic industries
2. Particular types of firm
To encourage entrepreneurship and new firm formation
To attract foreign firms
To help domestic firms against foreign competition
To encourage firms in import-substituting or export activities
3. Particular geographical areas
Economically depressed areas
Areas of growth potential or new settlement

Figure 7.2 Major types of economic policies pursued by nation-states
Source: Adapted from Dicken (2003), Figures 5.4, 5.6 and 5.8. Reprinted by permission of Sage Publications.

technology (Figure 7.2). In many cases, economic policies will also involve labour and finance. The most critical issue here is whether a particular nation-state pursues these economic policies in a *strategic* manner in order to seek or advance its national competitive advantage. If so, the relevant economic policies can be termed *strategic economic policies*:

- *strategic industrial policies*: these policies stand out as the most significant dimension as the nation-state gets directly involved in nurturing and promoting certain industries (e.g. automobile and electronics) and firms. Sometimes, explicit trade and investment policies are combined to favour these industries and firms.
- *strategic trade policies*: a strategic state will *manage* trade actively in order to protect the interests of its domestic producers. In addition to managing imports, nation-states often pursue strategic trade policies (e.g. export subsidies) to ensure their most favoured national firms – known as 'national champions' – are able to export globally and earn significant levels of foreign currency.
- *attracting foreign investment*: the role of the state becomes even more visible in these policy interventions. As the competition for global investment steps up significantly during the 1990s and the twenty-first century, many nation-states are now pursuing economic policies that are highly favourable to foreign investors. For example, general tax incentives, the availability of prime land, training of the domestic workforce, and so on are often combined to form an attractive package to attract foreign investors.
- *regional development policies*: in most countries, the nation-state actively pursues these policies to balance inherent inequality in the development of different regions (see also Chapter 3). These regional development policies may range from direct grants and financial incentives offered to poorly developed regions to central policy interventions (e.g. training the labour force and favourable industrial policies to target specific regions).

The above strategic economic policies often work out very differently in contrasting economies. For example, the US, widely known as *the* champion of free trade, does not necessarily apply the doctrine to its *imports* from around the world. As recently as 2003 and 2005, the US imposed punitive tariffs on imports of steel from Europe, Japan and many developing countries, and imports of textile and garments from China. The US justified these punitive tariffs on the basis of the 'strategic' importance of domestic producers in these sectors and the unfair 'cheap dumping' by exporting countries. By contrast, unlike the US' focus on regulating imports, the Asian newly industrializing economies (NIEs) explicitly engage in the strategic promotion of *exports*. For example, generous export subsidies and tax incentives have been offered to national champions such as Hyundai and Samsung from South Korea, and Acer

nation-states and national economies in today's global economy remains highly variegated, as we shall now move on to explain.

7.4 Types of states today

While the last section outlined the key economic functions of modern nation-states in general, it is important for us to bear in mind the enormous range of state formations in the global economy. In recognizing the institutional and geographical diversity of nation-states, we are challenging the 'end of the nation-state' thesis championed by ultra-globalists. This recognition is highly important precisely because of the uneven nature of the global economy (see Chapter 3). The different historical-geographical circumstances from which each nation-state emerged have produced a variety of *different* states rather than a homogeneous group of similar states. As alluded to in Figures 7.3 and 7.4, two of the world's most powerful states today, the US and China, emerged from rather different historical-geographical contexts. The US obtained its democratic statehood from Great Britain after Thomas Jefferson's Declaration of Independence was adopted by a meeting of statesmen held on 4 July 1776 in the Independence

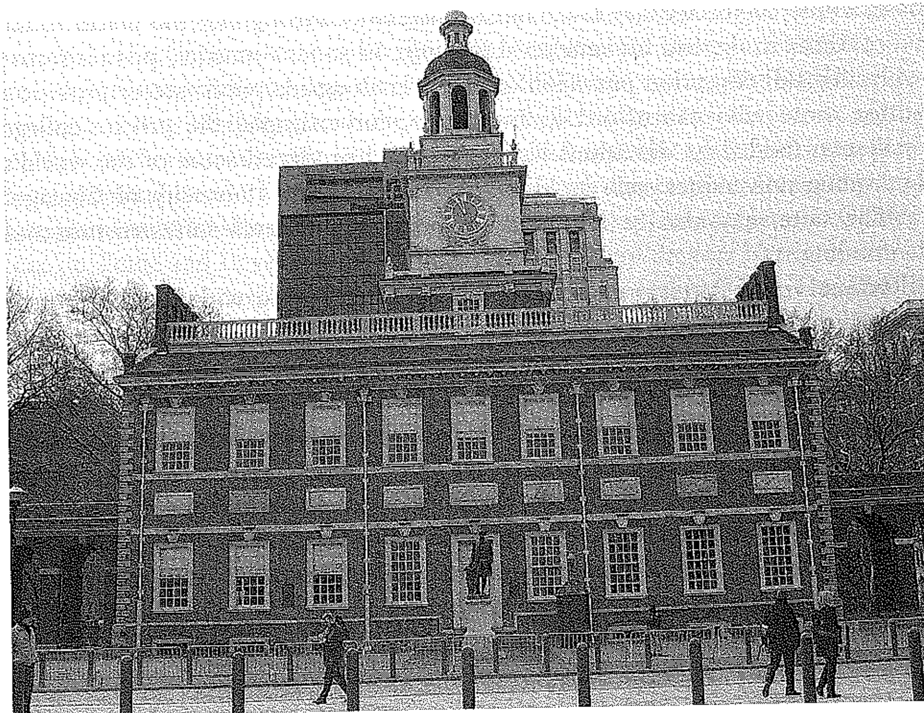

Figure 7.3 Independence Hall, Philadelphia, the United States
Source: The authors.

Figure 7.4 The Forbidden City, Beijing, China
Source: The authors.

Hall in Philadelphia. The rise of the People's Republic of China (PRC) followed a bloody civil war and resulted in the inauguration of a drastically different communist political system at the Forbidden City in Beijing on 1 October 1949.

Different states therefore engage in a wide range of power relations with firms, markets, and international organizations. Whereas some states are no doubt in control of their domestic economies through strict economic regulation, other states have delegated such economic control functions to private firms, markets, and international institutions. In other words, the kind of state in question is crucial in determining its capacity to control the economy and to resist and shape globalization processes. In this section, we review briefly six groups of nation-states in relation to their different political-economic governance and power relations:

- *neoliberal states* in North America, Western Europe, and Australasia;
- *welfare states* in Nordic countries and some European countries;
- *developmental states* in Asia and South America;
- *transitional states* in post-socialist countries in Eastern Europe, the former Soviet Union, China, and Southeast Asia (e.g. Vietnam, Cambodia, and Laos);

Table 7.1 Types of states in the global economy

Type of states	Examples	Main characteristics	Political governance systems	Organization of economic institutions
Neoliberal states	North America (e.g. Canada and the US), Western Europe (e.g. the UK), and Australasia	Reliance on the market economy	Liberal democracy with multiple political parties	Strong role of capital markets and finance-driven investment regimes
Welfare states	Nordic countries (e.g. Sweden, Finland and Norway) and some European countries (e.g. Germany and France)	Coexistence of substantial provisions of state benefits and the market economy	Social democracy with multiple political parties	Bank-centric financial systems and strong interdependency between capital, labour and state
Developmental states	Japan and the newly industrialized economies (e.g. Brazil, Mexico, Singapore, Taiwan and South Korea)	Relative autonomy of the capitalist state from corporate interests and voters	Soft authoritarianism dominated by a single large political party	Direct involvement of state in economy through industrial policies and strategic investments
Transitional states	Post-socialist countries in Eastern Europe, former Soviet Union, China, and Southeast Asia (e.g. Vietnam, Cambodia, and Laos)	Former communist states that are moving towards capitalism and markets	Strong authoritarianism dominated by a single political party	Hybrid co-existence of state-owned enterprises and market economy
Weak and dependent states	African, Central/South American, and Middle East countries	Beholding of states to oligarchs, foreign corporate interests or international agencies	Unstable political systems and the frequent presence of dictatorship	Undeveloped or underdeveloped markets for investment and production
Failed states	Somalia, Congo, Afghanistan, Iraq, East Timor, and Bosnia	International agencies performing state roles on behalf of the host states	Disintegrating or embryonic form of political system	Lack of clearly defined market system

- *weak and dependent states* in African, Central/South America, and the Middle East;
- *failed states* such as Somalia, Congo, Afghanistan, Iraq, and Bosnia.

In Table 7.1, we summarize the main features of these six different types of states. Some of these states have experienced traumatic journeys to *nation*hood characterized by internal contests and civil wars (e.g. the former Yugoslavia and several African states). Still other states (e.g. Taiwan) face competing claims of *national sovereignty* from other nation-states (e.g. China). For simplicity, we therefore use the broad term 'states' (instead of 'nation-states') to describe these political entities. To distinguish these varieties of states, we use two broad criteria:

- *political governance systems*: these range from liberal democracy in neoliberal states and social democracy in welfare states to authoritarian political control in developmental states and outright dictatorship in some weak and failed states;
- *organization of economic institutions*: how firms, industries, state and non-state institutions relate to each other in these states.

The great diversity in state formations points to the highly *uneven* and *differentiated* relationships between these states and globalization tendencies. There is no single outcome of globalization in relation to these states. Instead, globalization processes occur in tandem with this diversity of states.

Neoliberal states

In *neoliberal states*, government institutions keep a distance from private firms and industries. The main role of the state in these economies is to establish market rules through legislation and to enforce these rules through their regulatory capacity. In the US, for example, competitive and antitrust or antimonopoly market rules have led to the development of a particular kind of investment regime that governs the market. In this investment regime, American firms tend to rely on capital markets for their investment needs and have their performance measured according to their ability to maximize shareholder value. Hence, short-term investors exert a great deal of influence on corporate decision-making. While we consider this aspect of corporate governance and national business systems in more detail in Chapter 11, it suffices here to note that this American-style investment regime has led to particular kinds of labour market practices to be described fully in Chapter 9 (e.g. labour flexibility and open market recruitment). In New Zealand, for example, labour market restructuring has gone in tandem with massive privatization programmes – all hallmarks of *neoliberalism* (Box 7.1). Overall, the economy in these neoliberal states is

Box 7.1 Neoliberalism: what's in a concept?

Neoliberalism is a set of free-market political-economic principles that have become the ideological 'common sense' of the twenty-first century in many parts of the world (Tickell and Peck, 2003). It initially emerged during the 1970s in the guise of *laissez-faire* economic policies designed to combat protectionism and excessive government intervention. By the 1980s, it had mutated into a series of state projects and restructuring programmes. In developed countries such as the US, the UK, and New Zealand, neoliberalism was the guiding ideology behind state-driven programmes of privatization and deregulation. Alternatively known as the 'Washington Consensus' – a term coined in 1990 to describe a series of policy prescriptions being applied in South America – neoliberalism quickly spread throughout the world. In developing countries, it became synonymous with the infamous 'structural adjustment programmes' championed by the International Monetary Fund and the World Bank (see Box 7.3).

More recently, during the 1990s and beyond, neoliberalism has grown into the most powerful economic policy 'fix' for all kinds of political-economic problems throughout the world. Although it exists in different versions and permutations, neoliberalism broadly encapsulates the following key policy propositions:

- trade liberalization;
- financial market liberalization;
- privatization of production;
- deregulation;
- foreign capital liberalization and the elimination of barriers to foreign investment;
- securing property rights;
- unified and competitive exchange rates;
- diminished public spending (fiscal disciplines): welfare cutbacks and financial austerity;
- restructuring of the state through privatization: changing public expenditure in health, schooling, and infrastructure;
- tax reform to broaden the tax base, cut marginal tax rates, and reduce progressive taxes;
- scaling back the 'social safety net': narrowly targeted and selective transfers for the needy;
- flexible labour markets.

underpinned by a well developed financial market and a flexible labour market. The role of the nation-state is to serve as the custodian of this system through complex sets of regulatory institutions and legislation.

Welfare states

In *welfare states*, labour unions and state institutions play a much more direct role in corporate governance and firm behaviour. Private firms do not necessarily have a free hand in labour management, let alone in controlling the national economies. Instead, there are stringent labour laws and other welfare provisions that shape the investment behaviour of private firms. The role of capital markets in driving the national economy is relatively less than in neoliberal states. The economy in both Germany and France, for example, is heavily funded by their national banks, many of which are state-controlled, and less so by the capital markets (e.g. national stock exchanges) than in neoliberal states. As a result, German and French banks have substantial ownership stakes and management input in large German and French firms. In this way, the welfare state is able to directly control the national economy through its well developed and regulated banking system. Through state taxation – another form of state control of economies – welfare states are also able to provide a significant range of national welfare services for their citizens ranging from unemployment benefits and medical treatments to retirement pensions and education.

Developmental states

In *developmental states*, the state is relatively autonomous from the influence of civil society, business and the populace. This autonomy – often achieved through authoritarian political control – is necessary in order for the state to pursue interventionist policies favouring economic development. Most developmental states thrived on newfound nation-building imperatives immediately after their independence from former colonial powers. To achieve their economic development objectives, these states exercise economic control through developing elite state-sponsored economic agencies and strategic industrial policies (e.g. Japan's former Ministry of International Trade and Industry and South Korea's Economic Planning Board). These agencies are heavily engaged in consultation and coordination with the private sector, and these consultations become an essential part of the process of policy formulation and implementation. Through these elite agencies, the state decides on the 'right' industries to nurture and the 'best' firms to promote, creating a range of 'national champion' firms, some of which are directly owned and managed by state institutions. The developmental state is also actively involved in regulating its domestic capital and labour markets in order to enhance the likely success of its strategic industrial policies. In capital markets, the ministry of finance in most developmental states takes

Box 7.2 Strategies of industrialization: import-substitution versus export-orientation

There are two main types of strategies for developing nations to industrialize over a period of time: (1) import-substitution; and (2) export-orientation. In reality, most developing nations have pursued a mixture of both industrialization strategies in different historical periods. Their policy choice depends very much on their internal political conditions and the prevailing climate in the global economy (e.g. geopolitics, global trade regimes, technological change, and cross-border investment in manufacturing activities). The import-substitution industrialization (ISI) strategy was commonly adopted by nation-states in their early post-colonial period when nationalistic sentiments were particularly strong. Such strategies have been pursued, for example, with varying degrees of success, in many economies across East Asia and South America. Under the ISI strategy, the focus of economic development was placed on the domestic national economy, as evidenced by the following:

- protectionist trade policies to reduce imports;
- an overvalued exchange rate and exchange controls;
- the nationalization of large export-oriented firms, particularly in the area of natural resources;
- price controls to check domestic inflation;
- a highly-regulated labour market;
- a fiscal policy featuring heavy dependence on trade taxes and high tax evasion;
- public expenditure focusing on subsidies to state-owned enterprises (SOEs) and domestically-oriented private firms;
- high concentration of state expenditure in urban areas.

On the other hand, most observers agree that export-oriented industrialization (EOI) strategies have worked very well in the newly industrialized economies (NIEs) of East Asia (e.g. Hong Kong, Taiwan, Singapore, and South Korea) and South America (e.g. Brazil and Mexico). Generally, an EOI programme includes the following:

- a strong trade policy focus on export of primary commodities and manufactured goods;
- devalued currencies to increase export competitiveness;
- explicit state incentives to promote large export-oriented firms;
- regulation of union activities to reduce labour militancy and to stabilize cheap labour supply;
- industrial policy featuring new industries with strong export propensities;
- public expenditure focusing on subsidies to state-owned enterprises (SOEs) and export-oriented private firms.

direct stakes in national banks and finances export-oriented industrialization programmes (Box 7.2) through export subsidies and generous grants to its national champions. In labour markets, developmental states are often actively involved in subordinating the interests and rights of their workers. For example, in Taiwan and Hong Kong, labour unrests and strikes are managed through tough laws that curtail labour union activity.

Transitional states

In general, *transitional states* are so called because they are moving away from their former existence as communist totalitarian states governed entirely by central economic planning to a hybrid mix of planned and market economies. They are usually neither entirely democratic nor dictatorial in their political system. In most of these transitional states, however, dominant political parties in the former regimes retain important political influence in the transition to market economies. National economies tend to be dominated by a mixture of state-owned enterprises (SOEs) and private firms (domestic and foreign). The precise ratio of this mix varies between different transitional states. What is clear is that the nation-state continues to exercise a great deal of control of domestic economies through owning stakes in SOEs and manipulating dense webs of state regulation covering private firms and industries. Transitional states are mostly found in Central and Eastern Europe where economic reform went hand-in-hand with political reform as democratization swept through the region in the late 1980s and early 1990s, leading to the break-up of the Soviet Union and the emergence of transitional states such as Hungary, Czech Republic and Poland. In Asia, the opening of China to the global economy since late 1978 marks another significant development in transitional states. Unlike the former Soviet Union, economic reform in China was not accompanied by significant political reform. As of 2005, the Chinese Communist Party remained the only legitimate political party in China, prompting a hybrid form of economic development characterized by strong communist control and expanding market freedom known as 'red capitalism' (Lin, 1997). In this system, the many state-owned enterprises are managed jointly by Party and firm managers.

Weak and dependent states

State domination of the domestic economy is much more pronounced in *weak and dependent states* throughout Africa, South America, the Caribbean and the Middle East. A *weak* state is one that has largely succumbed to the power of oligarchs and corporate interests – as distinct from the relative autonomy of the developmental state. A *dependent* state, meanwhile, would be one that is beholden to international forces including international financial institutions (e.g. the World Bank and the International Monetary Fund) or other powerful

states (e.g. the US), to the extent that it has very little space for autonomous action. As most of these states rely heavily on natural resources for their economic development, state control of strategic resources becomes critical in preventing overexploitation and environmental degradation. Most of these dependent economies are highly vulnerable to cyclical fluctuations in global commodity prices. This dependency on primary commodity exports is apparent in most countries in Africa (e.g. Kenya and Ethiopia on coffee), South America (e.g. Venezuela and Ecuador on oil), the Caribbean (e.g. St Lucia on bananas) and the Middle East (e.g. the United Arab Emirates on oil).

In their efforts to industrialize, many weak and dependent states have engaged in import-substitution policies, often financed through lending from foreign banks. These debts, when combined with a lack of exports and therefore foreign reserves, and falling commodity prices, have left economies vulnerable to financial crises such as those that affected South America during the early-to-mid-1990s (e.g. Chile and Mexico) and 2002/2003 (e.g. Argentina). To help these South American economies out of their debt crises, international organizations such as the World Bank and the IMF were called in. The IMF's standard rescue package is commonly known as the Structural Adjustment Programme (Box 7.3). Under the strict conditions of these Programmes, states have lost influence over their domestic economies as they have become beholden to the policy advice of international organizations. From weak states, they have become dependent states insofar as they have succumbed to externally influenced programmes of financial management.

Failed states

A *failed state* is one where international agencies are actually performing state roles on behalf of the host government. Before they end up as failed states, economic institutions in these countries are usually subsumed to the state's political apparatus. As most of these states are subject to varying forms of dictatorship, the protection of property rights is weak and the existence of market rules is often ignored. This results in a form of economic organization that resembles central planning rather than a market economy. As the embryonic form of political system in these states disintegrates due to internal factors (e.g. civil wars or military coups) or external factors (e.g. international diplomatic or military pressure), there is pressure for international agencies such as the United Nations to step in and take over state functions described in the earlier section. Iraq and Afghanistan, in the post-US invasion periods, could be described in this way as failed states.

From this brief survey of how economic institutions are organized differently in different states (see Table 7.1), we can appreciate the highly differentiated power relations between state authority and market mechanisms. In neoliberal states, economic institutions are organized to reflect the centrality of *the market*, resulting in high levels of flexibility and autonomy for private firms and enterprises. Notwithstanding these market-driven economies, there are still many other states in the global economy in which economic institutions are organized around *the state* in the form of either state-owned enterprises or government-sponsored business and industrial initiatives. To speak of the end of the nation-state in controlling domestic economic affairs is simply a gross generalization of a great geographical diversity of states and their approaches to national economic management. Our typology also shows very different institutional

> ### *Box 7.3 Structural adjustment programmes in South America, circa the late 1980s*
>
> Before the debt crisis hit South America in the 1980s, the role played by international financial institutions such as the International Monetary Fund (IMF) and the World Bank was mostly temporary and project-specific, designed to ease short-term cash-flow problems or fund specific infrastructure and public works schemes. With the onset of the debt crisis, however, many South American economies suffered from a sudden downturn in capital inflows, much greater debt servicing costs, massive devaluation of national currencies, and rapid inflation (known as hyper-inflation). Consequently, both the IMF and the World Bank began to focus more explicitly on the *structural reform* of South American economies. The conditions associated with these reforms were significantly more constraining than in their earlier involvement. In particular, the term *structural adjustment programme* (SAP) has been used to describe a series of conditions imposed by the IMF and, to a lesser extent, the World Bank on South American economies. Under SAPs, the international financial institutions would offer financial and development assistance to South American states such as Argentina, Bolivia, Brazil, Chile and Peru if they were willing to adopt and implement new market-oriented development strategies that eschewed the earlier ISI models of economic development (see Box 7.2). These new strategies included privatization, trade liberalization, the deregulation of prices and labour and financial markets, and civil service reform. As elaborated in Box 7.1, SAPs were part of a broader political-economic movement towards neoliberalism. While the implementation of such SAPs in part reflected the increased power and international institutions and the severity of the financial crisis, it also relied upon the support of domestic political coalitions. By the early 2000s, however, new populist leaders in Argentina, Bolivia, Chile and Peru were pursuing more nationalistic economic policies that sought to 'roll back' the SAPs implemented since the late 1980s, reasserting the importance of the nation-state in these processes.

capacity in influencing and resisting forces unleashed through globalization processes. The explicit political ideologies adopted by different states result in different state-economy relationships, ranging from neoliberal free market systems to state-controlled planned economies.

7.5 Reconfiguring the State

Our recognition of the diverse functions and organization of nation-states in the preceding two sections does not imply that the state is a *static* feature in the global political economy, rather, we view the state as a dynamic set of institutions. In this section, we consider how the nation-state is being reconfigured in an era of globalization. First, we explain how the individual nation-state is experiencing changing structures of governance at both the international and sub-national scales – an economic-geographical process known as *rescaling*. Second, we note the rise of non-state forms of economic regulation through public–private partnership and private actors, a shift often described as being from govern*ment* to govern*ance*. In these subsections, we focus on the processes and dynamics of *institutional change* that enable nation-states to continue to exercise control over their national economies, albeit in different forms and in specific geographical contexts. Instead of delving in depth into the reconfiguration of a particular state, we offer a range of contrasting examples.

The rescaling of economic governance

As noted in Chapter 1, the global space-economy can be conceived in terms of different geographical scales that range from global, international, and macro-regional to national, regional, and local. Nation-states are actively reshaping their institutional structures of economic governance at both *international* and *sub-national* scales. In this *rescaling* process, the nation-state has to delegate some of its control of national economic affairs to authorities at higher geographical scales (international and macro-regional) or lower geographical scales (sub-national, regional, and municipal).

Historically, the nation-state executed its regulatory functions at the national scale. In other words, its policies and rules were applied throughout the nation, irrespective of local conditions. Globalization tendencies and changing international relations are increasingly challenging this nation-centric model of economic governance. In particular, the rise of international and macro-regional organizations has increased the importance of international cooperation and the coordination of economic policies among nation-states. This movement from national regimes of economic governance to authority at higher geographical scales can be conceived of as a process of *upscaling* (Swyngedouw, 2000). These international and macro-regional organizations exist primarily at two spatial scales:

1. *international organizations*: e.g. the World Trade Organization (WTO), the International Monetary Fund (IMF), the World Bank, the Organization for Economic Cooperation and Development (OECD), and the United Nations (UN);
2. *macro-regional groupings*: e.g. the European Union, Asia Pacific Economic Cooperation (APEC), North American Free Trade Agreement (NAFTA), the Association of South East Asian Nations (ASEAN), the New Partnership for Africa's Development (NEPAD), the South Asian Association of Regional Cooperation (SAARC), the Caribbean Community (CARICOM) and MERCOSUR (Mercado del Sur) in South America.

Among the *international organizations*, the United Nations is the oldest and broadest in terms of its mission and scope. However, it has only limited means and resources to influence economic governance at the global scale. In this sphere, we must consider the highly powerful IMF, the World Bank and the WTO and their influence upon the global financial system, development assistance and trade, respectively. The IMF was founded in 1944, and now has 184 member countries. It is the central institution of the international monetary system, and is charged with promoting stability and efficiency within the global system. The IMF is often called upon to resolve large financial deficits accrued by individual nation-states: as of August 2005, it had outstanding loan credits of US$71bn to 82 countries (http://www.imf.org, accessed 24 March 2006). However, as noted in Box 7.3, the IMF not only lends to these states to help them through cash-flow crises (e.g. a lack of sufficient foreign currency), but also seeks to impose conditions on how these economies should be restructured. Consequently, many IMF-assisted states are obliged to drastically reduce their state budgets and liberalize control of the domestic economy in line with the IMF's neoliberal policy prescriptions.

The World Bank was also founded in 1944, has 184 members, and provides development assistance – in terms of both knowledge and finance – to over 100 developing countries on an ongoing basis. This assistance covers a wide variety of activities including basic health and education provision, social development and poverty reduction, public service provision, environmental protection, private business development and macro-economic reforms. In 2005, it granted some US$22.3bn in development assistance, with Latin America and the Caribbean, and South Asia being the biggest recipients, with 24 and 22 per cent of total spending, respectively (http://www.worldbank.org, accessed 24 March 2006). As described in Section 7.4, some states have benefited from the World Bank's assistance and engaged in a virtuous circle of successful development pathways (e.g. post-war Germany, Japan, and the Asian NIEs). Other weaker and dependent states have benefited less from the World Bank's economic advices and development assistance (e.g. Chile and Peru). This uneven outcome of development interventions by the World Bank (and the IMF) has created discontent

in certain developing economies, where some see the World Bank and the IMF as *causes* of the development gaps in today's global economy.

The WTO was created in 1995 as the successor to the General Agreement on Tariffs and Trade (GATT) established in 1947. As an organization it is responsible for the regulation of global trade, and operates a multilateral rules-based system derived by negotiation between its member states. The WTO has around 150 members, accounting for 97 per cent of global trade (http://www.wto.org, accessed 24 March 2006). In addition to administering trade agreements and

Box 7.4 The rise of macro-regional economic blocs

Regional economic blocs are a significant addition to the regulatory architecture of the global economic system. The initial stimulus for such formations comes from a desire to reduce barriers to trade and therefore enhance levels of *intra-regional* trade. Following Dicken (2003), we can identify four key types of bloc. As we move down the list, the level of economic and political integration increases:

- *the free-trade area*: trade restrictions between member states are removed, but states retain their individual trading arrangements with non-members e.g. the North American Free Trade Agreement (NAFTA) between Canada, the USA and Mexico since 1994;
- *the customs union*: members operate a free trade agreement between themselves and have a common trade policy for non-members e.g. the MERCOSUR customs union between Argentina, Brazil, Paraguay and Uruguay since 1991 (Venezuela has since joined);
- *the common market*: has the characteristics of a customs union, but in addition, allows the free movement of factors of production (e.g. capital and labour) between members e.g. Caribbean Community (CARICOM) since 1973;
- *the economic union*: harmonization and supranational control of economic policies, but only the European Union comes anywhere close to this form as evidenced by the adoption of the Euro as the sole currency of several member states in 2002.

Three further points should be made. First, numerically, the vast majority of agreements fall under the first two headings (i.e. free-trade areas and customs unions). Second, economic blocs may develop over time and 'move down' this list, as has been the case with what is now the European Union. Third, it is important to recognize that all these regional economic forms are initiated by, and derive legitimation from, their member states.

providing a negotiating forum, it handles trade disputes, monitors national trade policies, and provides technical assistance and training for developing countries. To its critics, the rise of the WTO and its enforcement of global trading rules have actually increased uneven development at the global scale. While developing countries find it hard to engage in protectionist trade policies because of WTO rules, some of the richest nation-states in the world continue to flout WTO rules by protecting their domestic producers in politically sensitive sectors such as steel, clothing, and agriculture (the US and European Union, respectively). Trade liberalization under the auspices of the WTO therefore does not necessarily reduce its uneven impacts, as different countries benefit differentially from free trade. The very slow progress of the Doha round of negotiations initiated in 2001, with agricultural tariffs proving to be a major sticking point, is reflective of these tensions.

Macro-regional groupings, on the other hand, have emerged primarily for member states to engage in economic integration and, to a limited extent, political integration. As shown in Box 7.4 and Table 7.2, these groupings come in many shapes and sizes. For example, the European Union is the oldest form of regional economic integration, first starting as the European Common Market in 1957, but now encompassing 25 European countries in an advanced form of regional integration (Figure 7.5), while NAFTA, inaugurated in 1994, brings together Canada, Mexico and the US into a free-trade zone. The basic rationale behind the formation of such groups is to reap the economic benefits of enhanced intra-regional trade and investment. However, as nation-states increasingly participate in such regional initiatives, some claim that they are ceding some of their power over their domestic economies. This claim is in part based on the experience of EU member states that have had to adjust their domestic budgetary expenditure in order to avoid deficits and thereby maintain the integrity of the single European currency system. Countries may also experience painful periods of adjustment as certain kinds of economic activity relocate to take account of the new regional context (e.g. manufacturing activity shifting from Western to Central and Eastern Europe, and from the US to Mexico).

Meanwhile, rescaling processes are also at work *within* nation-states, manifested in a tendency towards regional devolution. This process of *downscaling* of the nation-state is particularly evident in the heartlands of neoliberalism – the UK and the US (Jones et al., 2005). In the UK, the emergence of institutions such as Training and Enterprise Councils (from 1988 till 2001: now called Local Learning and Skills Councils) and Regional Development Agencies (since 1998) in the management of investment incentives, human resource development, and regeneration initiatives has reduced the role of the national state in domestic economic governance. This reconfiguration and rescaling of economic governance in the UK in favour of local states formed an integral part of an ongoing neoliberal project first initiated by Margaret Thatcher in the 1980s. Over time, local and regional authorities have been granted increased autonomy over

Table 7.2 Major regional economic blocs in the global economy

Regional group	Membership	Date	Type
EU (European Union)	Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, France, Finland, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, UK	1957 (European Common Market) 1992 (European Union)	Economic Union
NAFTA (North American Free Trade Agreement)	Canada, Mexico, United States	1994	Free Trade Area
EFTA (European Free Trade Association)	Iceland, Norway, Liechtenstein, Switzerland	1960	Free Trade Area
MERCOSUR (Southern Cone Common Market)	Argentina, Brazil, Paraguay, Uruguay, Venezuela	1991	Customs Union
ANCOM (Andean Common Market)	Bolivia, Colombia, Ecuador, Peru, Venezuela	1969 (revived 1990)	Customs Union
CARICOM (Caribbean Community)	Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago	1973	Common Market
AFTA (ASEAN Free Trade Agreement)	Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	1967 (ASEAN) 1992 (AFTA) 2005 (ASEAN +3, i.e. China, Japan and South Korea)	Free Trade Area

Source: Updated from Dicken (2003), Table 5.3. Reprinted by permission of Sage Publications.

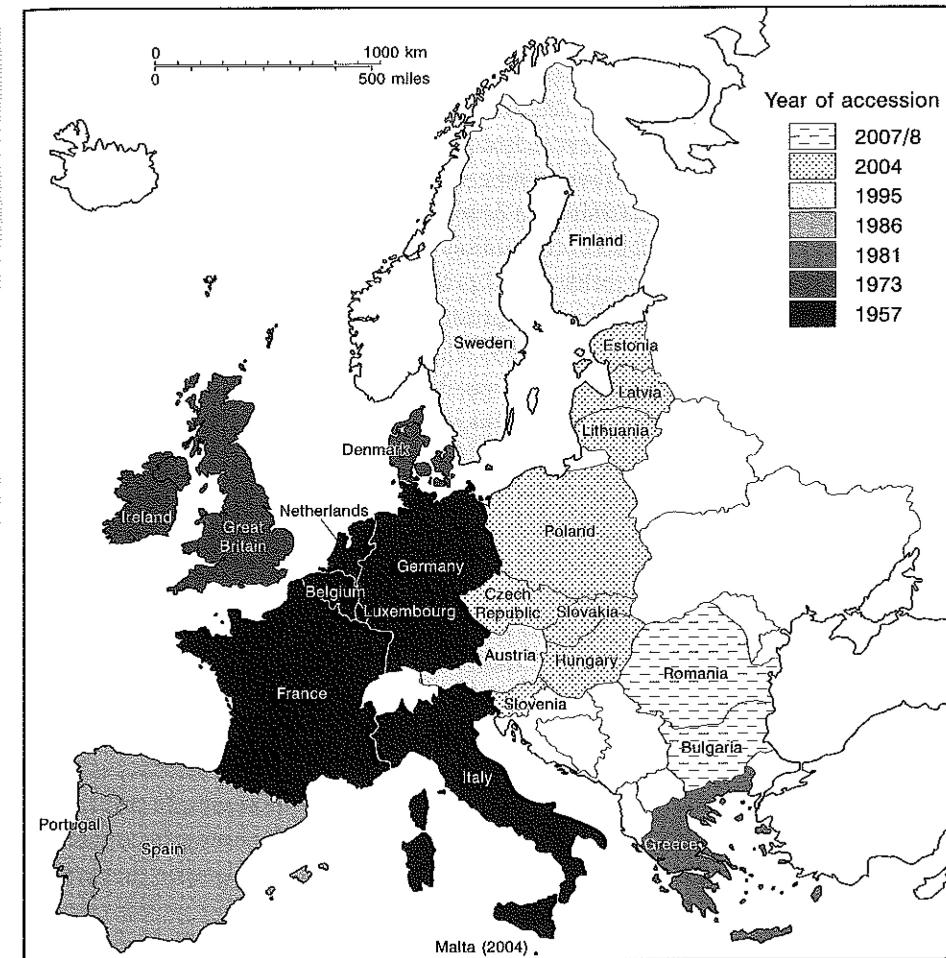

Figure 7.5 The expansion of the European Union since 1957

economic decision-making and investment initiatives. In some extreme examples (e.g. the Welsh Development Agency and OneNorthEast), RDAs have committed massive amounts of public funding to compete for specific foreign investors (South Korea's LG and Germany's Siemens).

In the US and Germany, the federal system of governance has historically granted individual state governments substantial autonomy and power in economic affairs within their own states (known as *Länder* in Germany). Since the 1990s, however, there has been a renewed interest in promoting major American cities as the 'growth poles' of the US economy. This phenomenon is broadly known as *urban entrepreneurialism*, reflecting the way in which metropolitan governments and city mayors are becoming more entrepreneurial in their economic

policy initiatives, particularly those towards promoting inward investment. The process has led to stern inter-urban competition for trade and investment, a phenomenon widely observed throughout Western Europe as well.

While the US and the UK are well-known examples of devolution and downscaling, these processes have echoes in nation-states that are not necessarily neoliberal in their political-economic outlook. For example, the opening of China since late 1978 to international economic activities has been accompanied by a significant process of decentralization of economic decision-making from the central communist state to local and provincial state authorities. This decentralization process has subsequently produced a dramatic surge in economic activity, mostly in the coastal provinces. The local and regional governments in these regions (e.g. Guangdong and Lower Yangtze) are extremely aggressive in their efforts to attract foreign investment.

Hollowing out the state

Apart from relegating some of its authority over national economic governance to formal institutions at different geographical scales, the nation-state is also simultaneously undergoing another process, namely, that of *hollowing out*. In this process, state functions are taken over by public–private partnerships and private forms of regulation. This process represents the devolution of state power to non-elected QUANGOs (Quasi-Autonomous Non-Governmental Organizations) or even private entities, and clearly intersects with the rescaling of economic governance described above. As the state is increasingly privatizing its national economy, the management of this national economy becomes not just the responsibility of the nation-state, but also the private sector that effectively inherits this joint responsibility from the state.

To give an example, the *privatization* of former state-owned enterprises (SOEs) does not just represent a transfer of ownership from the public to the private sector. It also entails a transfer of economic management and governance rights from the public sector to the hands of new private shareholders of these former SOEs. In developing countries throughout the world (e.g. India, Brazil, and Thailand), the partial retreat of the nation-state from ownership of firms in various industries points to the rise of industry-specific private regulation. In the telecommunications industry, for example, the privatization of former state-owned telecommunications providers has led to new forms of service standardization and pricing strategies that are regulated by competitive market forces rather than state directives. The entry of foreign firms into these newly privatized industries has further strengthened the role of industry players in shaping the country-specific operation of these industries. In other words, the regulation and governance of telecommunications industries in many developing countries are as much shaped by the largest private telecommunications firms as by the ministries of communications in these national economies.

In the realm of *legal regimes*, we are also witnessing a certain degree of hollowing out of the state as national legal systems are increasingly intersecting with private mechanisms. This phenomenon is perhaps most obvious in the world of global finance. The regulation of the financial health of national firms used to be held in the hands of nation-states and their designated institutions – usually the central banks or ministries of finance. Today, however, the importance of private coordinating and evaluative agencies such as credit rating agencies (e.g. Moody's and Standard & Poors), institutional investors (e.g. Goldman Sachs and JP Morgan) and pension funds (e.g. the California Public Employees Retirement System and the Universities Superannuation Scheme), and accountancy firms (e.g. PricewaterhouseCoopers) has grown rapidly in an era of global finance. The role of the nation-state in ensuring order and transparency in their national financial markets is partially taken over by these private institutions. It is no exaggeration to say that many of the largest firms throughout developed and developing countries are more worried about their ratings with Standard & Poors and the buy/sell advice by Goldman Sachs than their standings with home country state authorities. This is because favourable credit ratings and 'buy' advice by Goldman Sachs can significantly enhance the share prices of these large firms that are constantly seeking cheaper forms of capital for their domestic and global business expansion.

In this regard, leading business media play a significant role in shaping how business practices are governed. Business magazines such as *Forbes*, *Fortune*, and *Business Week* and business newspapers such as *The Wall Street Journal* and *The Financial Times* often play a *de facto* monitoring role in the business world. Corporate scandals reported in these magazines and newspapers can have very damaging effects on a firm. In fact, the state often gets involved in investigating the wrongdoings of private firms *after* the media breaks the news (e.g. the role of the media in the 2001 collapse of Enron as the largest corporate bankruptcy in the US). *The Financial Times* and other media in the City of London were implicated, for example, in the pessimistic corporate discourses on the financial crisis that swept Asia in 1997 and 1998 (Clark and Wójcik, 2001). Negative assessments of the crisis published in *The Financial Times* may well have contributed to dwindling stock market performance in Asia as institutional investors rushed to sell their large holdings of Asian corporate shares and stocks.

Other than these *private agents*, there are many quasi-private institutions that operate at the *international* scale to regulate specific economic activities. These international institutions range from industry associations and 'watch dogs' to environmental agencies and private foundations. What these institutions have in common is that they are increasingly taking over some of the regulatory and coordination functions previously held by nation-states. While Chapter 4 offered some examples of these international institutions in regulating the production and consumption of commodities, we raise here the further example

of global standards in accounting – the International Accounting Standards Committee (IASC), established in 1973, and the International Accounting Standards Board (IASB), established in 2001. As an independent private sector body, the IASC aims to create a set of global accounting standards that can be applied and implemented throughout the world. By the late 1990s, all stock exchanges in the world had adopted the reporting standards recommended by the IASC. This achievement should be viewed in a context where many state authorities (e.g. Japan and Germany) had previously found it very hard to implement a common standard among their domestic firms, let alone uniform international standards recommended by the IASC. In other words, one may argue that the IASC is much more effective in governing accounting practices throughout the global corporate world than individual nation-states.

7.6 Beyond the State?

Thus far we have considered the state as exercising influence and control in a uniform manner across its territory. In reality, however, state control is both socially and spatially uneven in its operation and effectiveness. In terms of social unevenness, certain portions of the population may be more or less excluded from state attempts to marshal the economy in the context of globalization. This may be voluntary on the part of some sections of the populace – for instance in the case of those deliberately working in the illegal or black economy beyond the reaches, or at the margins of state regulation – or involuntarily – as in the case of temporary migrant workers who may not be granted the same range of rights and opportunities as full citizens. With regards to spatial unevenness, we can think of certain spaces in which either a different form of state control is in existence – for instance in a tax-free export processing zone – or where the state simply cannot exert its controls – such as dangerous 'no-go' areas in certain cities. Rather than states exerting unproblematic control over their society and territory, most in reality operate a form of *graduated sovereignty* (Ong, 2000) in which different zones of economic control overlap and co-exist.

These ideas can be illustrated in the context of contemporary Malaysia, where it is possible to identify at least four zones of graduated sovereignty that are being created as the state has endeavoured to selectively integrate itself into the global economy (here we draw on Ong, 2000). First, there are the spaces of illegal migrants from Indonesia, the Philippines, Bangladesh and Myanmar, working as domestic servants, and on plantations and construction sites. Such workers have no rights to citizenship, and their short-term contracts are firmly enforced. Camps containing political refugees from across Southeast Asia are a related kind of 'non-citizen' space. Second, for Malaysia's diverse indigenous peoples – known in peninsular Malaysia as Orang Asli – differentiated government has meant displacement from traditional territories to increasingly environmentally and economically marginal land. Third, in the case of manufacturing workers, industrial sites and export processing zones (EPZs) are spaces exempted from a range of national labour and investment regulations, where labour unrest and potential strikes are quickly and firmly quashed, using force where necessary. Finally, the Multimedia Super Corridor (MSC) – a 750-sq km zone established in 1996 and stretching from Kuala Lumpur to the new international airport some 50 kilometres to the south – is a zone designed to meet the needs of the global knowledge economy, offering, among other benefits, advanced telecommunications, unrestricted employment of local and foreign knowledge workers, exemption from local corporate ownership requirements, a range of financial incentives and the promise of no Internet censorship.

Far from being a single territory governed in a uniform manner, contemporary Malaysia is in fact a fragmented space in which the experience of government depends on who and where you are. For example, a software worker enjoying the privileges of the MSC is seeing a very different side of Malaysia's efforts to integrate with the global economy than an electronics assembly worker in Penang. While the lines between these zones are particularly stark in the context of developmental states such as those in Southeast Asia, these arguments have a much wider resonance. In all kinds of states it is possible to think about how different portions of the population are governed differentially and the graduated zones or spaces that are created as a result. In some cases – as in the Malaysia example – these zones are deliberately created as part of state strategies, while in others – such as contemporary Russia, where crime, nepotism and bribery are widespread within the economy – they may reflect the state's inability to exert regulatory control over large portions of society.

7.7 Summary

In this chapter we have shown that it is far too simplistic to claim the irreversible demise of the nation-state in managing national economies. As we have seen, nation-states continue to profoundly shape the economic activity within, and across, their borders in a wide range of ways: from the assurance of basic laws and property rights, through the provision of basic infrastructure and education, to direct ownership of companies and a range of financial and tax incentives. At the same time, nation-states are not all the same: there is a tremendous range of different state forms in today's world, from neoliberal variants through to marginal states that constantly teeter on the brink of disarray and lawlessness. These different states in turn, have widely differing abilities both to control their economies, and to exert influence on international institutions. The US and Japan, for example, together contribute over 40 per cent of the operating budgets of the United Nations, the World Bank, and the IMF. They can thus wield substantial power in these international organizations

through their voting rights, financial contributions, and the appointment of key personnel.

Overall, however, the nation-state continues to an extremely important actor in the global economy. Ongoing processes of rescaling and hollowing-out, while extremely significant, have not reduced its significance as perhaps the *primary* shaper of political-economic activity worldwide. Importantly, the state itself is always implicated or involved in directing these processes through its conscious decisions whether to engage with international organizations or to devolve power and authority to local states. In short, nation-states remain critical institutions through which international, regional, and local economic issues are evaluated and acted upon. Together with the transnational corporations that we will describe in the next chapter, they are key drivers of economic globalization.

Further reading

- Coe and Yeung (2001) is a useful supplementary reading for understanding different geographical perspectives on globalization and the nation-state. Dicken et al. (1997), Yeung (1998), Kelly (1999), Amin (2002), and Dicken (2004) offer some of the best geographical analyses of globalization.
- O'Neill (1997) gives a good overview of the nation-state in economic geography. Dicken (1994) analyzes specifically the interaction between nation-states and transnational corporations. Glassman (1999) shows how the nation-state is rapidly internationalizing to project its power.
- Brenner and Theodore (2003) bring together an excellent collection of important geographical work on neoliberalism and its global geographies.
- Brenner et al. (2003) offer a state-of-the-art review on the rescaling of governance. MacLeod and Goodwin (1999) offer a critical summary of the geographical debates on this topic.
- Mansfield (2005) demonstrates the importance of understanding the relationships between the nation-state and all other geographical scales of governance.

Sample essay questions

- Why is the end of the nation-state thesis flawed?
- How are nation-states different in their approaches to economic governance?
- How does neoliberalism influence state behaviour?
- What does the rescaling of governance mean in geographical terms?
- To what extent is the nation-state still capable of managing its national economy?

Resources for further learning

- http://globalpolicy.igc.org/nations: the website of the Global Policy Forum provides some useful insights into the history and formation of modern nation-states.
- http://www.englandsrdas.com: the English Regional Development Agencies website has very useful information on the functions and activities of the nine RDAs in England.
- http://www.imf.org and http://www.worldbank.org: the websites of two of the world's most powerful financial and economic institutions offer a wide range of information on how these international organizations can shape a whole variety of political-economic processes in specific nation-states.
- http://europa.eu: the European Union portal contains a whole host of information on the genesis and working of the world's largest macro-regional organization.

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CHAPTER 8

THE TRANSNATIONAL CORPORATION

How does the global firm keep it all together?

Aims

- To question the claim that transnational corporations are really 'global'
- To understand how firms organize complex global activities
- To explore the variety of organizational forms used by transnational corporations
- To appreciate the inherent limits to the global reach of firms.

8.1 Introduction

In 1984, the now-defunct Barings Bank decided to buy a small brokerage firm from Henderson Crosthwaite and create Baring Far East Securities in order to start trading in the burgeoning stock markets in Asia. This was certainly not Barings' first overseas venture. In fact, as the world's oldest merchant bank – founded in the City of London in 1762 – Barings' international expansion started early. It played a crucial role in the sale of the French territory of Louisiana to the United States and the funding of the British government loans to finance the Napoleonic wars. The real significance of the 1984 acquisition rested with its radical departure from Barings' historical conservatism in merchant banking. For the first time in its corporate history, Barings engaged in the securities business – a high risk and high return business in an era of global finance. At its peak in 1991, Baring Securities had 19 offices worldwide and 1,100 staff, contributed over half of the Group's profits, and dwarfed the size of its parent bank. The global potential of the Barings Group had never looked better and brighter.

Just four years later in February 1995, the entire bank collapsed with trading losses amounting to £860 million (US$1.4 billion). What went wrong? One can