5 The state and globalization

Saskia Sassen

This chapter attempts to recover the ways in which the state participates in governing the global economy in a context increasingly dominated by deregulation, privatization, and the growing authority of non-state actors.[1] A key organizing proposition, derived from my previous work on global cities,[2] is the embeddedness of much of globalization in national territory, that is to say, in a geographic terrain that has been encased in an elaborate set of national laws and administrative capacities. The embeddedness of the global requires at least a partial lifting of these national encasements, and hence signals a necessary participation by the state, even when it concerns the state's own withdrawal from regulating the economy.

The question becomes one of understanding the specific type of authority/power this participation might entail for the state or, more precisely, for the particular state institutions involved. Does the weight of private, often foreign, interests in this specific work of the state become constitutive of that authority and indeed produce a hybrid that is neither fully private nor fully public? My argument is that, indeed, we are seeing the incipient formation of a type of authority and state practice that entail a partial denationalizing of what had been constructed historically as national.[3] This conceptualization introduces a twist into the analysis of private authority because it seeks to detect the presence of private agendas inside the state, that is, inside a domain represented as public. However, it differs from an older scholarly tradition on the captured state which focused on cooptation of states by private actors, because it emphasizes the privatization of norm-making capacities and the enactment of these norms in the public domain.

The purpose here is, then, to understand and specify a particular aspect of globalization and the state which is lost in what are typically rather dualized accounts of this relation; in such accounts, the spheres of influence of respectively the national and the global, or of state and non-state actors, are seen as distinct and mutually exclusive. While it may indeed be the case that most components of each of these are separate and mutually exclusive, there is a specific set of conditions or components that does not fit in this dual structure. Key among these are some components of the work of ministries of finance, central banks, and the increasingly specialized technical regulatory agencies, such as those concerned with finance, telecommunications, and competition policy. In this regard, then, my position is not comfortably subsumed under the proposition that nothing has much changed in terms of state power, nor under the proposition of the declining significance of the state.

An important methodological assumption here is that focusing on economic globalization can help us disentangle some of these issues precisely because, in strengthening the legitimacy of claims by foreign investors and firms, it adds to and renders visible the work of accommodating their rights and contracts in what remain basically national economies. However, these dynamics can also be present when privatization and deregulation concern native firms and investors, even though in much of the world privatization and deregulation have been constituted through the entry of foreign investors and firms.

In the first section I will introduce a number of conceptual issues about the denationalizing of specific forms of state authority which arise out of the at least partial location of global processes in national institutional orders. The second and third sections will discuss key features of this locational and institutional embeddedness of the global economy. And the final section will sketch out the particular substance and conditionality of this new mode of authority which, though housed or located in national state capacities and institutions, is not national in the way we had come to understand this feature of states over the last century. The empirical focus for much of the examination is confined to states under the so-called rule of law, and especially the United States.

Embeddedness and denationalization

A number of scholars have addressed various dimensions of this participation by the state. For some, it shows that globalization is made possible by states, and that, hence, not much has changed for states and the interstate system; the present era is merely a continuation of a long history of changes that have not altered the fundamental fact of state primacy.[4] There is today also a growing literature which interprets deregulation and privatization as the incorporation by the state of its own shrinking role;[5] in its most formalized version this position emphasizes the state's constitutionalizing of its own diminished role. In this literature economic globalization is not confined to capital crossing geographic borders as is captured in measures of international investment and trade, but is in fact conceptualized as a politico-economic system. And there is, finally, a growing literature, represented by various chapters in this book, that emphasizes the relocation of national public governance functions to private actors within both national and transnational domains.

The focus developed in this chapter adds yet another dimension to this growing and diverse scholarship by emphasizing that state participation is producing a denationalizing of particular components of state authority which remain, nonetheless, inside the state. As states participate in the implementation of the global economic system they have, in many cases, undergone significant transformations. The accommodation of the interests of foreign firms and investors entails a negotiation. At the heart of this negotiation is the development inside national states – through legislative acts, court rulings, executive orders – of the mechanisms necessary for the reconstitution of certain components of national capital into "global capital," and necessary to accommodate new types of rights/entitlements for foreign capital in what are still national territories in principle under the exclusive authority of their states.[6] The mode of this negotiation in the current phase has tended in a direction that I describe as a denationalizing of several highly specialized national institutional orders.

These particular transformations inside the state are partial and incipient but strategic. For instance, such transformations can weaken or alter the organizational architecture for the implementation of international law insofar as the latter depends on the institutional apparatus of national states. Further, they have also created the conditions whereby some parts of national states actually gain relative power[7] as a result of that participation in the development of a global economy. As particular components of national states become the institutional home for the operation of some of the dynamics that are central to globalization, they undergo change that is difficult to register or name. This is one instantiation of what I call a process of incipient denationalization – that is, of specific components of national states that function as such institutional homes.

This partial, often highly specialized, or at least particularized, denationalization can also take place in domains other than that of economic globalization, notably the more recent developments in the human rights regime that allow national courts to sue foreign firms and dictators, or that grant undocumented immigrants certain rights. Denationalization is, thus, multivalent: it endogenizes global agendas of many different types of actors, not only corporate firms and fianancial markets, but also human rights objectives. In this chapter I will confine myself to economic globalization.

The question for research then becomes: what is actually "national" in some of the institutional components of states linked to the implementation and regulation of economic globalization? The hypothesis here is that some components of national institutions, even though formally national, are not national in the sense in which we have constructed the meaning of that term over the past hundred years.

One of the roles of the state vis-à-vis today's global economy has been to negotiate the intersection of national law and foreign actors – whether firms, markets, or supranational organizations. This raises a question as to whether there are particular conditions that make execution of this role in the current phase distinctive and unlike what it may have been in earlier phases of the world economy. We have, on the one hand, the existence of an enormously elaborate body of law developed mostly over the past hundred years, which secures the exclusive territorial authority of national states to an extent not seen in earlier centuries, and, on the other, the considerable institutionalizing, especially in the 1990s, of the "rights" of non-national firms, the deregulation of crossborder transactions, and the growing influence/power of some of the supranational organizations. If securing these rights, options, and powers entailed an even partial relinquishing of components of state authority as constructed over the past century, then we can posit that this sets up the conditions for a necessary engagement by national states in the process of globalization.

We need to understand more about the nature of this engagement than is represented by concepts such as deregulation. It is becoming clear that the role of the state in the process of deregulation involves the production of new types of regulations, legislative items, court decisions[8] – in brief, the production of a whole series of new "legalities."[9] The background condition here is that the state remains as the ultimate guarantor of the "rights" of global capital, i.e., the protector of contracts and property rights, and, more generally, a major legitimator of claims.[10] In this regard the state can be seen as incorporating the global project of its own shrinking role in regulating economic transactions[11] and giving it operational effectiveness and legitimacy.[12] The state here can be conceived of as representing a technical administrative capacity which cannot be replicated at this time by any other institutional arrangement; although not in all cases,[13] this is a capacity backed by military power, with global power in the case of some states. The objective for foreign firms and investors is to enjoy, transnationally, the protections traditionally exercised by the state in the national realm of the economy for national firms, notably guaranteeing property rights and contracts. How this gets done may involve a range of options. To some extent this work of guaranteeing is becoming privatized, as is signaled by the growth of international commercial arbitration,[14] and by key elements of the new privatized institutional order for governing the global economy.[15]

It is in fact some states, particularly the United States and the UK, that are producing the design for these new legalities, i.e., items derived from Anglo-American commercial law and accounting standards, and are hence imposing these on other states given the interdependencies at the heart of the current phase of globalization. This creates and imposes a set of specific constraints on the other participating states.[16] Legislative items, executive orders, adherence to new technical standards, and so on will have to be produced through the particular institutional and political structures of each of these states. In terms of research and theorization, this is a vast uncharted terrain: it would mean examining how that production takes place and gets legitimated in different countries. This signals the possibility of crossnational variations (which then would need to be established, measured, interpreted). The emergent, often imposed consensus in the community of states to further globalization is not merely a political decision: it entails specific types of work by a large number of distinct state institutions in each of these countries. Clearly, the role of the state will vary significantly depending on the power it may have both internally and internationally.

The US government as the hegemonic power of this period has led/forced other states to adopt these obligations toward global capital. And, in so doing, it has contributed to strengthening the forces that can challenge or destabilize what have historically been constructed as state powers.[17] In my reading this holds both for the United States and for other countries. One way in which this becomes evident is in the fact that, while the state continues to play a crucial, though no longer exclusive, role in the production of legality around new forms of economic activity, at least some of this production of legalities is increasingly feeding the power of a new emerging structure marked by denationalization or privatization of some of its components.

A crucial part of the argument is the fact of the institutional and locational embeddedness of globalization. Specifying this embeddedness has two purposes. One is to provide the empirical specification underlying my assertion that the state is engaged, which in turn feeds the proposition about the denationalizing of particular state functions and capacities. The second purpose is to signal that, given this embeddeness, the range of ways in which the state can be involved is far broader than what it is today, when it is largely confined to furthering economic globalization. Conceivably state involvement could address a whole series of global issues, including the democratic deficit in the multilateral system governing globalization.[18]

The locational and institutional embeddedness of the global economy

Some of the key features of economic globalization allow for a broader range of forms of state participation than is generally recognized in analyses of the declining significance of the state. There are at least two distinct issues here. One is that the current condition, marked by the ascendance of private authority, is but one possible mode of several in which the state could be articulated. The other is that this current condition still leaves room for new forms of participation by the state as well as new forms of crossborder state collaboration in the governing of the global economy.[19] Among these are forms of state participation aimed at recognizing the legitimacy of claims for greater social justice and democratic accountability in the global economy, although both would require administrative and legal innovations.[20] The effort here is then not so much to show the enormous power and authority amassed by global markets and firms, but rather to detect the particular ways in which the power and authority of the state does and could shape and reshape those particular forms of private economic power.

There are three features of the global economy I want to emphasize here. First, the geography of economic globalization is strategic rather than all-encompassing, and this is especially so when it comes to the managing, coordinating, servicing, and financing of global economic operations. The fact that it is strategic is significant for a discussion about the possibilities of regulating and governing the global economy. Second, the center of gravity of many of the transactions that we refer to in an aggregate fashion as the global economy lies in the North Atlantic region, a fact which also facilitates the development and implementation of convergent regulatory frameworks and technical standards, and enables a convergence around "Western" standards. If the geography of globalization were a diffuse condition at the planetary scale, and one involving equally powerful countries and regions with a much broader range of differences than those evident in the North Atlantic, the question of its regulation might well be radically different. Third, the strategic geography of globalization is partly embedded in national territories, i.e., global cities and Silicon Valleys. The combination of these three characteristics suggests that states may have more options to participate in governing the global economy than much of the focus on the loss of regulatory authority allows us to recognize.

There are sites in this strategic geography where the density of economic transactions and the intensity of regulatory efforts come together in complex, often novel configurations. Two of these are the focus of this section. They are foreign direct investment, which mostly consists of crossborder mergers and acquisitions, and the global capital market, undoubtedly the dominant force in the global economy today. Along with trade, they are at the heart of the structural changes constitutive of globalization and the efforts to regulate it. These two processes also make evident the enormous weight of the North Atlantic region in the global economy.

Both foreign direct investment and the global capital market bring up specific organizational and regulatory issues.[21] There is an enormous increase in the complexity of management, coordination, servicing, and financing for firms operating worldwide networks of factories, service outlets, and/or offices, and for firms operating in crossborder financial markets. For reasons I discuss later, this has brought about a sharp growth in control and command functions, and their concentration in a crossborder network of major financial and business centers. This in turn contributes to the formation of a strategic geography for the management of globalization. Nowhere is this as evident as in the structure of the global capital market and the network of financial centers within which it is located. Elsewhere I examine this institutional order as the site of a new type of private authority.[22]

Each of these also is at the heart of a variety of regulatory initiatives. The growth of foreign direct investment has brought with it a renewed concern with questions of extraterritoriality and competition policy, including the regulation of crossborder mergers. The growth of the global capital market has brought with it specific efforts to develop the elements of an architecture for its governance: international securities regulation, new international standards for accounting and financial reporting, various European Union provisions. Each has tended to be ensconced in fairly distinct regulatory frameworks: foreign direct investment in antitrust law, and global finance in national regulatory frameworks for banking and finance.[23]

Further, while this strategic geography of globalization is partly embedded in national territories, this does not necessarily entail that existing national regulatory frameworks can regulate those functions. Regulatory functions have shifted increasingly toward a set of emerging or newly invigorated crossborder regulatory networks and the development of a whole array of standards to organize world trade and global finance. Specialized, often semi-autonomous regulatory agencies, and the specialized crossborder networks they are forming, are taking over functions once enclosed in national legal frameworks, and standards are replacing rules in international law. The question for research and theory is whether this mode of regulation is sufficient, and whether state participation may not emerge again as a more significant factor for the ultimate workability of some of these new regulatory regimes.

Finally, the empirical patterns of foreign direct investment and global finance show to what extent their centers of gravity lie in the North Atlantic region. The northern trans-Atlantic economic system (specifically the links among the European Union, the United States, and Canada) represents the major concentration of processes of economic globalization in the world today. This holds whether one looks at foreign direct investment flows generally, at crossborder mergers and acquisitions in particular, at overall financial flows, or at the new strategic alliances among financial centers. At the turn of the millennium this region accounts for two-thirds of worldwide stock market capitalization, 60 percent of inward foreign investment stock and 76 percent of outward stock, 60 percent of worldwide sales in mergers and acquisitions, and 80 percent of purchases in M&As. There are other major regions in the global economy: Japan, South East Asia, Latin America. But except for some of the absolute levels of capital resources in Japan, they are dwarfed by the size of the northern trans-Atlantic system.

This heavy concentration in the volume and value of crossborder transactions raises a number of questions. One concerns its features, the extent to which there are interdependence and (in that sense) the elements of a crossborder economic system. The weight of these trans-Atlantic links needs to be considered against the weight of established zones of influence for each of the major powers – particularly, the rest of the western hemisphere in the case of the United States, and Africa and Central and Eastern Europe for the European Union.

If there is considerable interdependence in the northern trans-Atlantic system, then the question of regulation and governance is likely to be of a different sort than if globalization for each of these major regions has meant in practice strengthening their ties and presence in their respective zones of influence. The United States and individual EU members have long had often intense economic transactions with their zones of influence. Some of these have been reinvigorated in the new economic policy context of opening to foreign investment, privatization, and trade and financial deregulation.

In my reading of the evidence, both the relations of the North Atlantic powers with their respective zones of influence and the relations within the system have changed. We are seeing the consolidation of a transnational economy that has its center of gravity in the North Atlantic system both in terms of the intensity and value of transactions, and in terms of the emerging system of rules and standards. This system is articulated with a growing network of sites for investment, trade, and financial transactions in the rest of the world. It is through this incorporation in a hierarchical global network, which has its center in the North Atlantic, that the relations with their zones of influence is now constituted. Thus, while the United States is still a dominant force in Latin America, several European countries have become major investors there, on a scale far surpassing past trends. And while several European Union countries have become leaders in investment in Central and Eastern Europe, US firms are playing a role they have never before played.

What we are seeing today is a new grid of economic transactions superimposed on the old geoeconomic patterns. The latter persist to variable extents, but they are increasingly submerged under this new crossborder grid which amounts to a new, though partial geoeconomics. In my own research I have found that these new configurations are particularly evident in the organization of global finance and, to a lesser extent, in direct foreign investment, especially crossborder mergers and acquisitions.

The fact of systemic conditions in the new geoeconomics is significant for the question of regulation. The orders of magnitude and the intensity of transactions in the North Atlantic system facilitate the formation of standards even in the context of what are, relatively speaking, strong differences between the United States and continental Europe in their legal, accounting, antitrust, and other rules. It is clear that even though these two regions have more in common with each other than with much of the rest of the world, their differences matter when it comes to the creation of crossborder standards. The fact of shared Western standards and norms, however, in combination with enormous economic weight has facilitated the circulation and imposition of US and European standards and rules on transactions involving firms from other parts of the world. There is a sort of globalization of Western standards. Much has been said about the dominance of US standards and rules, but European standards are also evident, for instance in the new antitrust rules being developed in Central and Eastern Europe.

Worldwide networks and central command functions

There are, clearly, strong dispersal trends contained in the patterns of foreign investment and capital flows generally: the offshoring of factories, the expansion of global networks of affiliates and subsidiaries, the formation of global financial markets with a growing number of participating countries. What is excluded from this account is the other half of the story. This worldwide geographic dispersal of factories and service outlets takes place as part of highly integrated corporate structures with strong tendencies toward concentration in control and profit appropriation. The

North Atlantic system is the site for most of the strategic management and coordination functions of the new global economic system.

Elsewhere I have shown that, when the geographic dispersal of factories, offices, and service outlets through crossborder investment takes place as part of such integrated corporate systems, there is also a growth in central functions; we can see a parallel trend with financial firms and markets.[24] One hypothesis this suggests is that the more globalized firms become, the more their central functions grow – in importance, in complexity, in number of transactions.[25] The specific forms assumed by globalization over the last decade have created particular organizational requirements. The emergence of global markets for finance and specialized services, the growth of investment as a major type of international transaction – all have contributed to the expansion in command functions and in the demand for specialized services for firms.[26]

We can make this more concrete by considering some of the staggering figures involved in this worldwide dispersal, and imagining what it entails in terms of coordination and management for parent headquarters, such as the fact that by the late 1990s there were almost half a million foreign affiliates of firms worldwide, most of them belonging to firms from North America and Western Europe.[27] There has been a greater growth in foreign sales through affiliates than through direct exports: the foreign sales through affiliates were US$ 11 trillion in 1999 and through worldwide exports of goods and services US$ 8 trillion. This has of course also fed the intrafirm share of so-called free crossborder trade. The data on foreign direct investment show clearly that the United States and the EU are the major receiving and sending areas in the world. Finally, the transnationality index of the largest transnational firms shows that many of the major firms from these two regions have over half of their assets, sales, and workforces outside their home countries.[28] Together these types of evidence provide a fairly comprehensive picture of this combination of dispersal and the growth of central functions.

The globalization of a firm's operations brings with it a massive task of coordination and management. Much of this has been going on for a long time but has accelerated over the decades. Further, this dispersal does not proceed under a single organizational form – rather, behind these general figures lie many different organizational forms, hierarchies of control, degrees of autonomy. The globally integrated network of financial centers is yet another form of this combination of dispersal and the growing complexity of central management and coordination.

Of importance to the analysis here is the dynamic that connects the dispersal of economic activities with the growth of central functions. In terms of sovereignty and globalization, this means that an interpretation of the impact of globalization as creating a space economy that extends beyond the regulatory capacity of a single state is only half the story; the other half is that these central functions are disproprotionately concentrated in the national territories of the highly developed countries.

By central functions I do not only mean top-level headquarters; I am referring to all the top-level financial, legal, accounting, managerial, executive, and planning functions necessary to run a corporate organization operating in more than one country, and increasingly in several countries. These central functions are partly embedded in headquarters, but also in good part in what has been called the corporate services complex, that is, the network of financial, legal, accounting, and advertising firms that handle the complexities of operating in more than one national legal system, national accounting system, advertising culture, etc., and do so under conditions of rapid innovations in all these fields. Such services have become so specialized and complex that headquarters increasingly buy them from specialized firms rather than producing them in-house. These agglomerations of firms producing central functions for the management and coordination of global economic systems are disproportionately concentrated in the highly developed countries – particularly, though not exclusively, in the kinds of cities I call global cities. Such concentrations of functions represent a strategic factor in the organization of the global economy.

One argument I am making here is that it is important to unbundle analytically the fact of strategic functions for the global economy or for global operation, and the overall corporate economy of a country. These global control and command functions are partly embedded in national corporate structures but also constitute a distinct corporate subsector. This subsector can be conceived of as part of a network that connects global cities across the globe.[29] For the purposes of certain kinds of inquiry this distinction may not matter; for the purposes of understanding the global economy, it does. And it seems to me that this distinction also matters for questions of regulation, notably regulation of crossborder activities.

If the strategic central functions – both those produced in corporate headquarters and those produced in the specialized corporate services sector – are located in a network of major financial and business centers, the question of regulating what amounts to a key part of the global economy is not the same as if the strategic management and coordination functions were as distributed geographically as are the factories, service outlets, and affiliates. However, regulation of these activities is evolving along lines of greater specialization and crossborder capabilities than most current state-centric national systems can comfortably accommodate today.

Another instance today of this negotiation between a transnational process or dynamic and a national territory is that of the global financial markets. The orders of magnitude have risen sharply, as illustrated by the US$ 68 trillion in the 1999 value of internationally traded derivatives, a major component of the global economy. These transactions are partly embedded in telecommunications systems that make possible the instantaneous transmission of money/information around the globe. Much attention has gone to these capacities for instantaneous transmission. But the other half of the story is the extent to which the global financial markets are located in particular cities, especially though not exclusively in the highly developed countries; indeed, the degrees of concentration are unexpectedly high.

Stock markets worldwide have become globally integrated. In addition to deregulation in the 1980s in all the major European and North American markets, the late 1980s and early 1990s saw the addition of such markets as Buenos Aires, Sao Paulo, Bangkok, Taipei, etc. The integration of a growing number of stock markets has contributed to raise the capital that can be mobilized through stock markets. Worldwide market value reached over US$ 30 trillion in 2000. This globally integrated stock market, which makes possible the circulation of publicly listed shares around the globe in seconds, is embedded in a grid of very material, physical, strategic places – that is, cities belonging to national territories.

A crucial issue for understanding the question of regulation and the role of the state in the global capital market is the ongoing embeddedness of this market in these networks of financial centers operating within national states; these are not offshore markets. The North Atlantic system contains an enormous share of the global capital market through its sharp concentration of leading financial centers.[30] Further, as the system expands through the incorporation of additional centers into this network – from Eastern Europe, Latin America, etc. – the question of regulation also pivots on the existence of dominant standards and rules, i.e. those produced by the economies of the North Atlantic.

In my reading, studies that emphasize deregulation and liberalization do not sufficiently recognize an important feature, one which matters for the analysis here: the global financial system has reached levels of complexity that require the existence of a crossborder network of financial centers to service the operations of global capital. Each actual financial center represents a massive and highly specialized concentration of resources and talent; and the network of these centers constitutes the operational architecture for the global capital market.

Denationalized state agendas

The representation of economic globalization coming out of the two preceding sections is quite different from many of the standard accounts. For the purposes of this section it is especially two of the features of globalization as discussed above that matter. One of these is that the global economy needs to be produced, reproduced, serviced, financed. It cannot be taken simply as a given, such as the fact of more interdependence, or merely as a function of the power of multinational corporations and financial markets. There is a vast array of highly specialized functions that need to be ensured. These have become so specialized that they can no longer be contained in corporate headquarters functions. Global cities are strategic sites for the production of these specialized functions to run and coordinate the global economy. Inevitably located in national territories, these cities are the organizational and institutional location for some of the major dynamics of denationalization. While such processes of denationalization – for instance, certain aspects of financial and investment deregulation – are institutional and not geographic, the geographic location of many of the strategic institutions – financial markets and financial services firms – means these processes are embedded geographically.

The second feature, partly connected to the first, is that the global economy to a large extent materializes in national territories. Its topography is one that moves between digital space and national territories. This requires a particular set of negotiations which have the effect of leaving the geographic boundaries of the national state's territory unaltered, but do transform the institutional encasements of that geographic fact, that is, the state's territorial jurisdiction or, more abstractly, exclusive territoriality.

Precisely because global processes need to be coordinated and serviced and because many of these functions materialize to a large extent in national territories, national states have had to become deeply involved in the implementation of the global economic system. In this process states have experienced transformations of various aspects of their institutional structure. This signals that the global economy and the national state are not mutually exclusive domains. Globalization leaves national territory basically unaltered but is having pronounced effects on the exclusive territoriality of the national state – that is, its effects are not on territory as such but on the institutional encasements of the geographic fact of national territory. But alongside and, in my reading, distinct from this diminished territorial authority of the state, there is the denationalizing of specific state agendas. The work of states in producing part of the technical and legal infrastructure for economic globalization has involved both a change in the exclusivity of state authority and in the composition of the work of states. Economic globalization entails a set of practices that destabilize another set of practices, i.e., some of the practices that came to constitute national state sovereignty.

Implementing today's global economic system in the context of national territorial sovereignty required multiple policy, analytic, and narrative negotiations. These negotiations have typically been summarized or coded as "deregulation." There is much more going on in these negotiations than the concept "deregulation" captures. The encounter of a global actor – firm or market – with one or another instantiation of the national state can be thought of as a new frontier. It is not merely a dividing line between the national economy and the global economy. It is a zone of politico-economic interactions that produce new institutional forms and alter some of the old ones. Nor is it just a matter of reducing regulations. For instance, in many countries, the necessity for autonomous central banks in the current global economic system has required a thickening of regulations in order to delink central banks from the influence of the executive branch of government and from deeply "national" political agendas.

Central banks illustrate this well. These are national institutions, concerned with national matters. Yet over the last decade they have become the institutional home within the national state for monetary policies that are necessary to further the development of a global capital market and indeed, more generally, a global economic system. The new conditionality of the global economic system – the requirements that need to be met for a country to become integrated into the global capital market – contains as one key element the autonomy of central banks.[31] This facilitates the task of instituting a certain kind of monetary policy, e.g., one privileging low inflation over job growth even when a president may have preferred it the other way around, particularly at reelection time. While securing central bank autonomy has certainly eliminated a lot of corruption, it has also been the vehicle for one set of accommodations on the part of national states to the requirements of the global capital market. A parallel analysis can be made of ministries of finance (known as the Treasury in the United States and the UK) which have had to impose certain kinds of fiscal policies as part of the new conditionalities of economic globalization.

There is a set of strategic dynamics and institutional transformations at work here. They may incorporate a small number of state agencies and units within departments, a small number of legislative initiatives and of executive orders, and yet have the power to institute a new normativity at the heart of the state; this is especially so because these strategic sectors are operating in complex interactions with private, transnational, powerful actors. Much of the institutional apparatus of the state remains basically unchanged; the inertia of bureaucratic organizations, which creates its own version of path dependence, makes an enormous contribution to continuity.

In my current research on the United States, I am extricating from what has been constructed as "US legislative history" a whole series of legislative items and executive orders that can be read as accommodations on the part of the national state and as its active participation in producing the conditions for economic globalization. This is a history of microinterventions, often minute transformations in the regulatory or legal frameworks that facilitated the extension of particular crossborder operations of US firms. This is clearly not a new history, neither for the United States nor for other Western former imperial powers (e.g., the "concessions" to trading companies under British, Dutch, and other colonial regimes). Yet, I argue, we can identify a new phase, one which has very specific instantiations of this broader feature.[32]

Among the first of these new measures in the United States, and perhaps among the best-known, are the tariff items passed to facilitate the internationalization of manufacturing, which exempted firms from import duties on the value added of reimported components assembled or manufactured in offshore plants. I date this microhistory of legislative and executive interventions to the late 1960s, with a full crystallization of various measures facilitating the global operations of US firms and the globalization of markets in the 1980s, and work continuing vigorously in the 1990s. The Foreign Investment Act of 1976, the implementation of International Banking Facilities in 1981, the various deregulations and liberalizations of the financial sector in the 1980s, and so on – these are but the best-known landmarks in this microhistory.

Further, the new types of crossborder collaborations among specialized government agencies concerned with a growing range of issues emerging from the globalization of capital markets and the new trade order are yet another aspect of this participation by the state in the implementation of a global economic system. A good example is the heightened interaction in the past three or four years among competition policy regulators from a large number of countries. This is a period of renewed concern about competition policy because economic globalization puts pressure on governments to work toward convergence given the crosscountry diversity of competition laws or enforcement practices. This convergence around specific competition policy issues can coexist with ongoing, often enormous differences among these countries when it comes to laws and regulations about those components of their economies that do not intersect with globalization. There are multiple other instances of this highly specialized type of convergence: regulatory issues concerning telecommunications, finance, the Internet, etc. It is, then, a very partial type of convergence among regulators of different countries who often begin to share more with each other than they do with colleagues in their home bureaucracies.

What is of particular concern here is that today we see a sharp increase in the work of establishing convergence.[33] We can clearly identify a new phase in the past ten years. In some of these sectors there has long been an often elementary convergence, or at least coordination, of standards. For instance, central bankers have long interacted with each other across borders, but today we see an intensification in these transactions, which becomes necessary in the effort to develop and extend a global capital market. The increase of crossborder trade has brought with it a sharpened need for convergence in standards, as is evident in the vast proliferation of International Organization for Standardization (ISO) items. Another example is the institutional and legal framework necessary for the operation of the crossborder commodity chains identified by Gereffi.[34]

One outcome of these various trends is the emergence of a strategic field of operations that represents a partial disembedding of specific state operations from the broader institutional world of the state that had been geared exclusively to national agendas. It is a field of crossborder transactions among government agencies and business sectors aimed at addressing the new conditions produced and demanded by economic globalization. In positing this I am rejecting the prevalent notion in much of the literature on globalization that the realm of the national and the realm of the global are two mutually exclusive zones. My argument is rather that globalization is partly endogenous to the national, and is in this regard produced through a dynamic of denationalizing what had been constructed as the national.[35]

It is also a field of particular types of transactions: they are strategic, cut across borders, and entail specific interactions with private actors. These transactions do not entail the state as such, as in international treaties, but rather consist of the operations and policies of specific subcomponents of the state – for instance, legislative initiatives, specialized technical regulatory agencies, or some of the agendas pursued by central banks. These are transactions that cut across borders in that they concern the standards and regulations imposed on firms and markets operating globally,[36] and hence produce a certain convergence at the level of national regulations and law in the creation of the requisite conditions for globalization. The result is a mix of new or strengthened forms of private authority and partly denationalized state authority, such as the instituting of private interests into state normativity.[37]

Conclusion

The chapters in this volume show us the repositioning of the state in a broader field of power partly constituted through the formation of a new private institutional order linked to the global economy, but also through the growing importance of a variety of other institutional orders, from the new roles of the international network of NGOs to the international human rights regime. In this chapter the focus is not on that private institutional order but rather on the ways in which the state participates in the implementation of a global economic system. The focus is particularly on modes of participation that have the effect of transforming certain features of the state, including ways that are often not evident. The aim was to map an intermediate zone where private authority and state authority meet and produce a third type of authority. This is an intermediate institutional zone in need of conceptualization and empirical specification. This chapter begins to map some of its features.

Economic globalization has emerged as a key dynamic in the formation of a transnational system of power which lies in good part outside the formal interstate system. One instance of this is the relocation of national public governance functions to transnational private arenas, much of the focus in this volume. But I argue that it also lies, to a far higher degree than is usually recognized, inside particular components of national states. This second feature can be recognized in the work done by legislatures, courts, and various agencies in the executive to produce the mechanisms necessary to accommodate the rights of global capital in what are still national territories under the exclusive control of their states. Rather than interpreting this as signaling that not much has changed, or as a capturing of the state by private interests, I interpret this as a denationalizing of what had been constructed in national terms.

The much examined decrease in state regulatory capacities resulting from some of the basic policies associated with economic globalization is a far more differentiated process than notions of an overall decline in the significance of the state suggest. And it entails a more transformative dynamic inside the state than the notion of a simple loss of power suggests. There are significant policy implications to this type of reading. Up to now much of the work of the state has concerned the claims made by powerful economic actors. I would like to posit the possibility of new types of state authority, including the possibility of forms going well beyond the current modes of state action. In principle, such new modes could also involve elements of a new politics of accountability vis-à-vis global actors rather than the current orientation of state work toward furthering the rights and guarantees of global capital. The enabling condition is, precisely, the institutional and locational embeddedness of the global economy, at least partly, in national institutional orders and territories.

NOTES

1 This chapter is part of my larger multiyear research project to be published as *Denationalization: Economy and Polity in a Global Digital Age* (under contract with Princeton University Press, September 2003).
2 Saskia Sassen, *The Global City: New York, London, Tokyo* (Princeton, N.J.: Princeton University Press, 2001, 2nd edn. [1991]).
3 Sassen, *Denationalization.*
4 Steven D. Krasner, *Sovereignty: Organized Hypocrisy* (Princeton, N.J.: Princeton University Press, 1999).
5 Leo Panitch, "Rethinking the Role of the State in an Era of Globalization," in James Mittelman (ed.), *Globalization: Critical Reflections. International Political Economy Yearbook*, vol. 9 (Boulder, Colo.: Lynne Rienner, 1996), pp. 83–113; Stephen Gill, "Globalization, Democratization, and the Politics of Indifference," in the same volume, pp. 205–28; and Mittelman, *The Globalization Syndrome: Transformation and Resistance* (Princeton, N.J.: Princeton University Press, 2000).
6 Two very different bodies of scholarship which develop lines of analysis that can help in capturing some of these conditions are represented by the work of Rosenau, particularly his examination of the domestic "frontier" inside the national state, and by the work of Walker problematizing the distinction inside/outside in international relations theory. See James N. Rosenau, *Along the Domestic–Foreign Frontier: Exploring Governance in a Turbulent World* (Cambridge: Cambridge University Press, 1997), and R. B. J. Walker, *Inside/Outside: International Relations as Political Theory* (Cambridge: Cambridge University Press, 1993).
7 Saskia Sassen, *Losing Control? Sovereignty in an Age of Globalization*, 1995 Columbia University Leonard Hastings Schoff Memorial Lectures (New York: Columbia University Press, 1996), chs. 1 and 2.
8 Sol Picciotto, *International Business Taxation: A Study in the Internationalization of Business Regulation* (London: Weidenfeld and Nicolson, 1992); P. G. Cerny, *The Changing Architecture of Politics* (London: Sage, 1990); and Panitch, "Rethinking the Role of the State."
9 I use this term to distinguish this production from "law" or "jurisprudence": Sassen, *Losing Control?*, ch. 1.
10 While well known, it is worth remembering that this guarantee of the rights of capital is embedded in a certain type of state, a certain conception of the rights of capital, and a certain type of international legal regime: it is largely embedded in the state of the most developed and most powerful countries in the world, in Western notions of contract and property rights, and in new legal regimes aimed at furthering economic globalization, e.g., the push to get countries to support copyright law.
11 Gill, "Globalization, Democratization," and Panitch, "Rethinking the Role of the State."

12 Sassen, *Losing Control?*, chs. 1 and 2, and Sassen, *Denationalization*.
13 See Williams, "Transnational Organized Crime and the State," this volume.
14 Yves Dezalay and Bryant Garth, *Dealing in Virtue: International Commercial Arbitration and the Construction of a Transnational Legal Order* (Chicago and London: University of Chicago Press, 1996).
15 See also Cutler, "Private Regimes and Interfirm Cooperation," this volume.
16 This dominance assumes many forms and does not affect only poorer and weaker countries. France, for instance, ranks among the top providers of information services and industrial engineering services in Europe, and has a strong, though not outstanding, position in financial and insurance services. But it has found itself at an increasing disadvantage in legal and accounting services because Anglo-American law and standards dominate in international transactions. Anglo-American firms with offices in Paris do the servicing of the legal needs of firms, whether French or foreign, operating out of France (Sassen, *Global City*). Similarly, Anglo-American law is increasingly dominant in international commercial arbitration, an institution grounded in continental, particularly French and Swiss, traditions of jurisprudence (Dezalay and Garth, *Dealing in Virtue*).
17 See, in this regard, Giovanni Arrighi, *The Long Twentieth Century: Money, Power, and the Origins of Our Times* (London: Verso, 1994); Diana E. Davis (ed.), "Chaos and Governance," *Political Power and Social Theory*, 13, Part IV: Scholarly Controversy (Stamford, Conn.: JAI Press, 1999).
18 Elsewhere (*Denationalization*) I examine how these dynamics also position citizens (still largely confined to national state institutions for the full execution of their rights) vis-à-vis these types of global struggles. My argument is that state participation creates an enabling environment not only for global corporate capital but also for those seeking to subject the latter to greater accountability and public scrutiny. But unlike what has happened with global corporate capital, the necessary legal and administrative instruments and regimes have not been developed. The tradeoffs and the resources that can be mobilized are quite different in the case of citizens seeking to globalize their capacities for governing compared to those of global capital seeking to form regimes that enable and protect it.
19 Alfred C. Aman, Jr., "The Globalizing State: A Future-Oriented Perspective on the Public/Private Distinction, Federalism, and Democracy," *Vanderbilt Journal of Transnational Law*, 31 (4) (1998), 769–870.
20 I examine these two issues in greater detail in Sassen, *Denationalization*.
21 For a detailed examination of these two aspects, see Sassen, *Global City*, chs. 4, 5, and 7.
22 Sassen, *Losing Control?*, ch. 2.
23 It is quite possible that globalization may have the effect of blurring the boundaries between these two regulatory worlds.
24 Sassen, *Global City*.
25 This process of corporate integration should not be confused with vertical integration as conventionally defined. See also Gary Gereffi, "Global Production Systems and Third World Development," in Barbara Stallings (ed.), *Global Change, Regional Response: The New International Context of Development*

(New York: Cambridge University Press, 1995), pp. 100–42, on commodity chains, and Michael Porter, *The Competitive Advantage of States* (New York: Free Press, 1990), on value-added chains, two constructs that also illustrate the difference between corporate integration at a world scale and vertical integration as conventionally defined.

26 A central proposition here, developed at length in my work (*Global City*), is that we cannot take the existence of a global economic system as a given, but rather need to examine the particular ways in which the conditions for economic globalization are produced. This requires examining not only communication capacities and the power of multinationals, but also the infrastructure of facilities and work processes necessary for the implementation of global economic systems, including the production of those inputs that constitute the capability for global control and the infrastructure of jobs involved in this production. The emphasis shifts to the *practice* of global control: the work of producing and reproducing the organization and management of a global production system and a global marketplace for finance, both under conditions of economic concentration. The recovery of place and production also implies that global processes can be studied in great empirical detail.

27 Affilliates are but one form of operating overseas and hence their number underrepresents the dispersal of a firm's operations. There are today multiple forms, ranging from new temporary partnerships to older types of subcontracting and contracting.

28 This index is an average based on ratios of the share that foreign sales, assets, and employment represent in a firm's total of each. If we consider the world's top 100 transnational corporations (TNCs) in 1997, the EU had 48 of these firms and the United States 28; many of the remaining were from Japan. Thus together the EU and the United States accounted for over two-thirds of the world's 100 largest TNCs. The United States, the UK, France, Germany, and Japan together accounted for 3/4 of these 100 firms in 1997; this has been roughly so since 1990. The average transnationality index for the EU is 56.7 percent compared to 38.5 percent for the United States (but 79.2 for Canada). Most of the US and EU TNCs in this top 100 list have very high levels of foreign assets as a percentage of total assets: for instance, 98 percent for Seagram, 97 percent for Thomson, 96 percent for Asea Brown Boveri, 91 percent for Bayer, 91 percent for Nestlé, 85 percent for Michelin, 85 percent for Unilever, 79 percent for Hoechst, 77 percent for Philips Electronics, 71 percent for Ericsson, 69 percent for Ferruzi/Montedison, 68 percent for Coca-Cola, 67 percent for Rhône-Poulenc, 62 percent for Elf Aquitaine, 59 percent for BMW, 58 percent for Exxon, 55 percent for McDonald's, 55 percent for Volkswagen Group, 51 percent for IBM, 45 percent for Renault, 43 percent for Siemens, and so on. The share of foreign in total employment is often even higher. (See Organization for Economic Cooperation and Development, *Transborder Data Flow Contracts in the Wider Framework Mechanisms for Privacy Protection in Global Networks* [Paris: OECD, 2000], for the full listing.)

29 In this sense, global cities are different from the old capitals of erstwhile empires, in that they are a function of crossborder networks rather than simply the most powerful city of an empire. There is, in my conceptualization, no

such entity as a single global city as there could be a single capital of an empire; the category global city makes sense only as a component of a global network of strategic sites. The corporate subsector which contains the global control and command functions is partly both embedded in, and constitutive of this network.

30 Two major developments that can alter some of the features of the present configuration are the growth of electronic trading and the growth of the eurozone. The creation of an enormous consolidated capital market in the eurozone raises serious questions about the feasibility of maintaining the current pattern with as many international financial centers as there are member countries; some of these markets may lose top international functions and get repositioned in complex and hierarchical divisions of labor. Second, electronic trading is leading to a distinct shift toward setting up strategic alliances among major financial centers, producing a combination of a crossborder digital market embedded in a set of specific city-based financial markets. I have examined this at greater length in Sassen, *Global City*, chs. 4, 5, and 7.

31 While we take this autonomy for granted in the United States or in most EU countries (though not all – thus France's central bank is still not considered as quite autonomous from the executive), in many countries the head of state or local oligarchies have long had undue influence on central banks. Incidentally, this influence has not necessarily always worked to the disadvantage of the disadvantaged, as is evident for instance in monetary policies that promoted employment by letting inflation rise.

32 I am trying to distinguish current forms from older notions of the state as a tool of capital, comprador bourgeoisies, or neocolonialism. Further, there are important parallels in this research with scholarship focused on the work of the state in producing the distinction between private and public law (see Cutler, "Private Regimes and Interfirm Cooperation," in this volume), and with scholarship on the work of the state in setting up the various legal and administrative frameworks that gave the modern state its shape.

33 I use the term convergence for expediency. In the larger project I posit that conceptualizing these outcomes as convergence is actually problematic and often incorrect. Rather than a dynamic whereby individual states wind up converging, what is at work is a global dynamic that gets filtered through the specifics of each "participating" state. Hence my central research concern is not so much the outcome, "convergence," but the work of producing this outcome.

34 Gereffi, "Global Production Systems."

35 Further, insofar as it is partly embedded in national settings, e.g., global cities, the state has had to re-regulate specific aspects of its authority over national territory.

36 An important point, which is usually disregarded in much general commentary about the global economy, is that a firm can participate in the latter even if it operates inside a single country: the key is whether it participates in a market or a transaction that is part of the global "system." My concern in this regard has been to show that there is considerable institutional development of that which is called the global economy – it is not simply a matter of goods or money

crossing borders. For a firm's operations to be part of the global economy, they need to be encased in this institutional framework. If they are not, they may constitute an informal crossborder transaction or part of the new transnational criminal economy. A simplified illustration of the point that the distinctiveness of participating in the global economy does not necessarily lie in the fact of crossing borders is, for example, a US-based firm (whether US or non-US) that invests in a non-US firm listed on the New York stock market. The point here is that there is a regime – a set of conditions and legalities – that governs the listing of foreign firms on a stock market that has been incorporated in the global system and that governs the conditions under which the investor can acquire stock in that firm. I see the key, determining issue to be whether the firms and investors involved are operating under the umbrella of this regime. This umbrella is partly constituted through national institutions and partly, perhaps increasingly so, through the new privatized institutional framework I discuss later. What comes together in this example in my reading are some of the specifications I summarize in the global city model and in the notion of denationalization. On the other hand, the following would not be an instance of firms operating in the global economic system, even though it entails actual physical crossing of borders: two individuals residing in different countries making a deal informally for one of them to bring items, also informally – without following regulations, including WTO regulations – for the second individual to sell in the second country, with both individuals using informal accounting and trust systems to guarantee enforcement of the conditions of the agreement. This is an extreme contrast; there are many cases that are more ambiguous than this.

37 As I indicated earlier, I conceptualize denationalization as multivalent. Thus, in the case of human rights, matters which had been considered the prerogative of states – security and protection of its citizens – are universalized and in that sense denationalized (see Sassen, *Denationalization*).