

Is the role of governments in the new global economy under challenge?

A theoretical perspective

Abstract

Many observers believe that a profound shift is taking place from a state-dominated to a market-dominated international economy. As a result, a significant reconfiguration in power, jurisdiction, authority and legitimacy of states is underway. National governments are not so much losing power, but are having to adjust to a new context in which their power and sovereignty is shared and bartered among other public and private agencies – above, below and alongside the nation-state. With the growing emphasis on markets in the international environment, governments are gradually becoming part of a more polycentric global governance structure. In this sense, the power and authority of governments are being reconfigured in the context of a multi-layered system of global governance. This, however, challenges the basic assumptions of the Westphalian conception of the world. The aim of this study is firstly to provide a historical perspective on the changing nature of globalisation and global economic order. By highlighting the main debates, it secondly attempts to give a theoretical outline of how governments' role in the global economy is being challenged by the dynamics of neoliberal globalisation.

1. Introduction

The international market place has changed markedly in the last sixty years bringing with it new challenges. Around the world, local events bear the imprint of global processes. As world society integrates, individuals become conscious of being enveloped in global networks, subject to global forces and governed by global rules. Whether planned or not, these global changes implicate a disturbing degree of insecurity for the world economy.

The world economic and political system is experiencing its most profound transformation since emergence of the international economy in the seventeenth and eighteenth centuries. Factors influencing almost every aspect of international affairs include: the end of the Cold War, the collapse of the Soviet Union, a stagnant yet enormously rich Japan, the reunification of Germany and its consequent return as the dominant power in Western Europe, and the rise of China and Pacific Asia (Gilpin, 2000:23). The world is also witnessing the emergence of a growing number of non-state or private actors along with the Bretton Woods institutions (World bank, IMF, etc.) of global economic governance. The increase in the authoritative dimensions of these institutions and others in the world economy is of particular significance.

Additionally, the rise of multilateralism and international cooperation is highlighting the tendency to place global or regional agendas ahead of domestic ones. This growing amount of preference that is given to global or regional issues of common concern is a strong indication of the changing international landscape. If one could add to this the ways in which national governments are having to adjust¹ constantly to the increasing push and pull of global market conditions and forces, it is clear that nation-states indeed find themselves enveloped in a new global economy.

Given all these changes in the international environment, a matter of specific importance is where all of this leaves governments in terms of the role they play in the world economy. Although both globalists and sceptics would agree that governments still are principal actors, the question is: Why is it that when their external and internal economic environment changes (in terms of markets), they are being challenged to adapt? And also: Does the fact that they are having to increasingly adjust their role in, specifically the international economic arena, not cast doubt over their ability to individually govern globally expanding markets? And lastly: Is the collective efforts by governments (e.g. regional groupings), as part of this adjustment, not confirmation of the fact that governments are realising a decline in their individual authority when they are increasingly pressured by the forces of neoliberal globalisation? Of importance, however, is not necessarily the specific (contentious) answers to these questions, but rather the mere fact that they are being asked.

In light of this, the study is organised in a manner which emphasises how the role of governments are being challenged by fundamental changes in the global economic environment. The relevant historical background as well as the debates involved are theoretically delineated. As a premise, the study accepts the claim that the role played by governments in the world economy is under growing pressure. In attempting to qualify this hypothesis, the aim of the study is to concentrate on the grounds of this claim, and in the end, to consider its validity. Moreover, the study highlights the centrality of governments in defining the consequential nature of the changes taking place in global economic governance, as part of the broader framework of global governance.

¹ By mentioning that “governments are having to adjust constantly”, this study is not referring to the erosion of state power, but rather the reconfiguration of state power and authority.

2. Conceptualisation and theory

Driven by the growing interconnectedness of markets around the world, the process of globalisation has increasingly become multi-dimensional in nature. Globalisation, asserts Modelski (1972:144), is the history of growing engagement between the world's major civilisations. The author views it as not so much a phenomenon of the modern age as one which begins with the sporadic encounters amongst the earliest civilisations.

As the third millennium is starting to take shape, globalisation finds its expression in enduring webs of worldwide economic, cultural, political and technological interconnectedness. This bears testimony of the fact that it is driven by a confluence of forces and embodies dynamic tensions. Due to its evolving nature, globalisation as a term has always eluded universal agreement. Although its precise meaning remains contested, globalisation could be defined as: a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information and telecommunication technology (Center for Strategic & International Studies, 2002:1).

Globalisation could be considered as a progressive increase in the scale of economic and social processes from a local or regional to a world level. In this respect, it is, in particular, the economic dimension of globalisation which amplifies its impact around the world. Economic globalisation, as part of the broader process of globalisation, could be defined as: the process by which markets and production in different countries are becoming increasingly interdependent due to the dynamics of trade in goods and services and flows of capital and technology (Held, 2000:92).

If economic globalisation is associated with the integration of separate national economies (global economic integration), such that the actual organisation of economic activity transcends national frontiers, then a global economy might be said to be emerging. Theoretically, in a globalised economy world market forces take precedence over national economic conditions as the real value of key economic variables (production, prices, wages and interest rates) respond to global competition. However, at present there is still some considerable disagreement on the issue of to what extent the world has been globalised. Rather than a global economy, sceptics

interpret current trends as evidence of a significant, but not historically unprecedented, internationalisation of economic activity, that is, an intensification of linkages between separate national economies (Held & McGrew, 2000:20).

In essence, the distinction between internationalisation and globalisation is where the debate on the government and world order originates from. Internationalisation reflects a world order dominated by nation-states and the emphasis is on strategic relationships for aid, development and exploitation. It is closely linked with and dependent on autonomous nation-states. In contrast, globalisation reflects global competitiveness between great market blocs and intensified collaboration and competition in the emergence of new regional blocs which are not only economic, but also social and political. It suggests a less state-centric world order (Castells, 2001:244).

Economic globalisation, specifically, is an increasingly important feature of international economic relations in terms of its implications for global economic governance², trade and productive investment. On the face of it, it has changed the global economic landscape irreversibly. A global consciousness, based on neoliberal principles, is emerging which views the rapid integration of national markets with one another as a new dimension being added to the creation of a global web of interconnectedness (Barnet & Cavanagh, 1994:186; Gill, 2003:130).

The language of the globalisation thesis is polylogical in that it presupposes multiple images to be placed in the network of interacting forces in the world. All this, though, within the framework of the neoliberal global project – the Washington consensus of deregulation, privatisation, structural adjustment programmes (SAPs) and limited government – which consolidated its hold within key Western capitals and global institutions such as the IMF, the World bank and the WTO. In effect, the discourse of contemporary globalisation could be understood as a primarily ideological construction which supports the neoliberal project (Hoogvelt, 1997:56).

² Global economic governance could be defined as: the institutions, norms, practises and decision-making processes from which rules, guidelines, standards, and codes arise in order to manage the world economy. It includes the private sector, governmental and regional organisations, and civil society (Varma, 2002:3). Global economic governance forms part of the larger process of global governance.

More specifically, the neoliberal ideology (or pluralism) could be seen as part of the modernisation theory. Due to the neoclassical nature of neoliberalism, its central focus is the rule of the market. It is thereby emphasising the free flow of capital, goods and services and is considering the market as self-regulating. It also includes the deunionising of labour forces and removals of any impediments to capital mobility, such as regulations – free from government control. It therefore advocates deregulation, privatisation and a reduction in public expenditure for social services (Beck, 1999:32).

Sandwiched between the constraints of global financial markets and the exit options of mobile productive capital, national governments across the global have been forced to adopt increasingly similar (neoliberal) economic strategies which promote financial discipline, limited government and sound economic management. In this sense, contemporary neoliberal globalisation involves a reordering of the relationship between territory and socio-economic and political space. Put simply, as economic, social and political activities increasingly transcend regions and national frontiers this delivers a direct challenge to the territorial principle of modern social and political organisation. That principle presumes a direct correspondence between society, economy and polity within an exclusive and bounded national territory.

Globalisation, however, disrupts this correspondence in so far as social, economic and political activity can no longer be understood as coterminous with national territorial boundaries, implying that nation-states are no longer the sole masters of their own or their citizens' fate. This does not mean that territory and place are becoming irrelevant, but rather that, under conditions of contemporary globalisation, they are reinvented and reconfigured, that is, cast in a global context and increasingly to be found in competition with one another. By implication, the state is not in decline or its power being eroded. Rather, its sovereignty and authority are being reconfigured in the context of a multi-layered system of global governance (Castells, 1996:13 and Held, 2000:142).

The internationalisation of the state and the growing emphasis on markets in the global environment resulted in governments becoming part of a gradually more polycentric global governance structure. As modern states are forming part of a

fragmented global system of power and rule, they are being drawn into becoming part of a system of shared governance. Hereby, the contemporary world order might best be described as a heterarchy³. In this multi-layered system of global governance states are seen as one level in a very complex system of often overlapping and competing agencies of governance. It is, however, a system which depends upon the agreement between a multiplicity of agencies – from states and intergovernmental organisations (IGOs) to MNCs. They attempt to find consensus on global rules, norms and policies within the context of the global agenda (Hall & Biersteker, 2002:66).

The concern, though, is that the modern state is increasingly embedded in webs of global and regional interconnectedness permeated by quasi-supranational, intergovernmental and transnational forces, and unable to determine its own fate. Such developments, it is feared, challenge both the sovereignty and legitimacy of states. Sovereignty could be challenged because the political authority of states is displaced and compromised by regional and global power systems, political, economic and cultural. Legitimacy is at issue because with greater regional and global interdependence, states struggle to deliver fundamental goods and services to their citizens without international cooperation. In terms of its competence in the global environment, the modern state is under increasing strain. It is thus reconfigured in the sense that its capacity to act independently in the articulation and pursuit of domestic and international policy objectives, is in decline (Held & McGrew, 2000:13).

Economic globalisation has been accompanied by a significant internationalisation of political authority associated with a corresponding globalisation of political activity. Since national governments are deeply embedded in this system of multi-layered economic governance, their role and power continues to be qualified decisively by economic globalisation. Hereby, states are increasingly enmeshed in a network of interdependencies and regulatory and/or collaborative arrangements from which exit is generally not a feasible option (Ohmae, 1995:27 and Sassen, 1996:55).

³ A heterarchy is a system in which political authority is shared and divided between different layers of governance and in which many agencies share in the task of governance (Held, 2000:163).

Although the issue of 'to what degree' is still undecided, it is generally recognised that the role, power, authority and function of national government is indisputably being transformed by globalisation. The growth in international and transnational organisations and collectives, from the UN and its specialised agencies to international pressure groups and social movements, has altered the form and dynamics of the traditional conception of the state. And alongside these global institutions also exist a parallel set of regional bodies, from MERCOSUR to the EU, which constitute another dimension to the system of multi-layered economic governance (Rosenau, 1997:168).

A new kind of state is slowly emerging and, with it, a new public philosophy of governance which recognises the changed global context of political and economic action. This, however, challenges the basic assumptions of the Westphalian conception of the world. With its roots in the Peace of Westphalia (1648) when Europe's monarchs agreed to recognise each other's right to rule their own territories, free from outside interference, the traditional view of the 'states as containers' is being fundamentally displaced by the reflexive state (Held, 2000:163).

Traditionally states have been posited as the fundamental unit of world order in that it presupposes its relative homogeneity, that is, that it is a unitary phenomenon with a set of singular purposes (Young, 1972:36). By comparison, the rise of the reflexive or network state is different in that it seeks to reconstitute its power at the intersection of global, regional, transnational and local systems of rule and governance. This, to be sure, suggest that the world is witnessing a transformation in state power.

3. Background: changes in the world economy

After World War II, the infrastructure for communication and transportation improved dramatically, connecting groups, institutions, and countries in new ways. More people can travel, or migrate, more easily to distant parts of the globe. Satellite broadcasts bring world events to an increasingly global audience. The Internet is also knitting together world-spanning interest groups of educated users. Still in its infant stage, the technology revolution is already facilitating multitudes of global networks, thereby drastically increasing global economic activity. Not only has production become globalised, but multinational corporations (MNCs) have become ever more

important in world trade and often operate in an environment that is untouched by the rules of international institutions. Trade in services (banking, insurance, securities, etc.) has grown as has private international investment (Levy-Livermore, 1998:218).

Such links are the raw material of globalisation. They are moulded into new organisational forms as regional institutions go global or new ones take shape on the world stage. Increasing international trade and investment bring more countries into the global capitalist system as democracy gains strength as a global model for organising nation-states. The world is also witnessing the occurrence of numerous international organisations that take on new responsibilities in addressing issues of common concern. These institutions, in turn, are crystallising into a comprehensive world society. It seems as if the world is becoming a single place, in which different institutions function as parts of one system and distant peoples share a common understanding of living together on one planet – creating a new sense of ‘global belonging’. By assembling a more interdependent world, globalisation is the process that fitfully brings these elements of world society together (Lechner & Boli, 2000:1 and Dicken, 1992:5). The question, however, is: Where and when did it all start? The next three sections of the study will attempt to find answers to this question.

3.1 Historical identity of globalisation

In clear contrast with all other historical societies, the contemporary world society is considered to be global. What we have is a spontaneously globalising social and economic reality in need of a historical interpretation⁴. The process by which a number of historical world societies were brought together into one global system could be considered as part of globalisation’s historical identity. The nature and the shape assumed as a result of that process remain even today one of the basic factors of international economics and politics. It must, however, be noted that there is no general consensus concerning the historical identity of the globalisation-phenomenon (Held & McGrew, 2000:49).

The opening period of globalisation is considered to be about 1000 AD when the Moslem world was the nearest approximation to a world political order. The origins

⁴ By placing the process of globalisation in a more appropriate historical context, more light will be shed on existing debates. Also, the history of global order is seen as part of the history of globalisation.

of the Moslem world lay in the Arab conquest of the seventh century, and its binding force was Islam. At that time it ranged from Spain and Morocco, through Damascus, Cairo and Baghdad, to Persia and the North of India. In the centuries that followed, it reached as far as the Indonesian islands, and Central and East Africa. Even by comparison with medieval Europe, it was a prosperous, productive and culturally rich world. For several hundred years, the Moslem world was the true seat of civilisation. Indeed, by occupying a central position in the Eurasian-African landmass and using it for their far-flung trade, the Moslems had already brought together the major centres of world civilisation (Modelski, 1972:86).

After 1500 and especially in the latter stages of what is called 'archaic globalisations', the Moslem world was strategically outflanked by European naval operations, and its vitality continued to decline (Bell, 2003:808). The work of political unification of the world and the expansion of the capitalist world economy now fell to Europe. In one sense, the drive that produced it was a response to the prosperity of the Islamic world and the threat that was perceived to emanate from it. The Europeans, especially the Portuguese and Spaniards, not only circumnavigated the globe, but followed up this feat with the establishment and maintenance of a permanent network of worldwide contacts. For the five hundred years that followed, it was they who determined the speed and the character of globalisation (Cipolla, 1964:102-103). Still, an interesting feature about globalisation's historic identity is that true changes occur as a result of chaos and crises. It therefore seems like progress' relative value is maintained only in combination with the absolute value of catastrophes (Ionov, 2003:87).

The eras of historical globalisation which followed the epoch of archaic globalisation was firstly 'proto-globalisation' in the period of 1600 to 1800. This period was characterised by the mutation of political and economic institutions throughout large parts of the world and also the emergence of distinct state systems. The next brief era was that of 'modern globalisation' (1800-1820) which evolved alongside the modern state, nationalism and full-blown industrial capitalism. This era signified the advent of new technologies that allowed for ever greater extension. The era that followed this, that of 'post-colonial globalisation', coincided with the Industrial Revolution (1820-1913) and forms part of what is today called 'contemporary globalisation'. Of note, is the fact that the global economic order during the Industrial Revolution was

liberal – a general characteristic of eras of high growth in the world economy. An important observation is the fact that each successive mode/era of globalisation was layered on top of the previous ones, serving to channel and shape patterns of trade, consumption and communication. Thus, the new always carries with it traces of the old (Bell, 2003:807-808).

In light of this, a distinct characteristic of early twentieth-century modernity was its dual nature. It contained two contrasting tendencies in that it denoted rational organisation based on objective social knowledge but it also implied an enthusiasm for waywardness and indeterminacy (Bell, 2003:810). This proved to be an inherent feature of the pre-war era – the *belle époque* – and the periods thereafter. The *belle époque* of globalisation, namely the period from 1890 to 1914, is considered to be a very controversial period in terms of what the actual status of global integration was – especially when compared to the post-1945 period. The controversy and contradictions mainly revolves around the issues of ‘evidence’ and ‘interpretation’. By comparison with the *belle époque* both the magnitude and geographical scale of flows of trade, capital and migrants are considered by some as currently of much lower order. Although today, it is argued, gross flows of capital between the world’s major economies are largely unprecedented; the actual net flows between them are considerably less than at the start of the twentieth century (Weiss, 1998:47 and Hirst & Thompson, 1999:114).

On the contrary, others point to the historically unprecedented scale and magnitude of contemporary global economic interaction (Rodrik, 1997:86 and Dicken, 1998:214). Daily turnover on the world’s foreign exchange markets, for instance, currently exceeds some sixty times the annual level of world exports, while the scale and intensity of world trade far exceeds that of the *belle époque*. According to this view, national economies, with some exceptions, are presently much more deeply enmeshed in global systems of production and exchange than in previous historical eras, while few states following the collapse of state socialism, remain excluded from global financial and economic markets. In this sense, patterns of contemporary economic globalisation have woven strong and enduring webs across the world’s major regions such that their economic fates are intimately connected (Held & McGrew, 2000:23).

It must, however, be granted that although the global economy as a single entity may at present not be as highly integrated as the most robust national economies, the trends point towards intensifying integration within and across regions. Especially in the period after the Second World War, the operation of global financial markets, for example, has produced a convergence in interest rates among major economies (Gagnon & Unferth, 1995:31). Financial integration also brought with it a contagion effect in that economic crisis in one region, as illustrated by the East Asian crash of 1997-8, rapidly acquires global ramifications (Godement, 1999:37). Alongside financial integration the operations of MNCs increasingly integrate national and local economies into global and regional production networks (Castells, 1996:103 and Dicken, 1998:71). Under these conditions, national economies today no longer function as autonomous systems of wealth creation since national borders are ever more irrelevant to the conduct and organisation of economic activity.

In more specific historical terms, the interwar period marked the end of *fin de siècle* globalism and the beginning of *la tyrannie du national*. It means that while the geopolitical storm clouds were gathering once again, there was also a remarkable outburst of globalist thinking, which, in its focus on technology and economic and political rationalisation, bears a marked resemblance to contemporary globalisation discourse. When compared with the other eras of historic globalisation, post-colonial globalisation – especially in the period after World War II and the establishment of the Bretton Woods institutions, is associated with a declining role of the state. In contrast to the eras of proto and modern globalisation, when globalisation developed alongside the state, it appears as if it has now in a way ‘surpassed’ the state via the massive expansion of cross-border markets (Bell, 2003:810).

3.2 Emergence of a new global economy

When referring to the emergence of ‘a new global economy’, the first question that comes to mind is how or when it came about? Although it is hard to pin down its exact origin, Castells (1996:92) traces its genesis to the 1970s when it was the latter stages of the transition from structuralism to post-structuralism and post-modernism. At the time, technological innovation and productivity growth, in particular, were driven by intensifying competitiveness and growing demand for profitability. It proved to be a new economy growing within the old economy. What has changed is

not the kind of activities humankind is engaged in, but its technological ability to use it as a direct productive force. In this sense, the contemporary world economy has most certainly internationalised in its basic dynamics. It is dominated by uncontrollable market forces, and it has as its principal economic actors and major agents of change truly national transnational corporations that owe allegiance to no nation-state and locate wherever on the globe market advantage dictates (Hirst & Thomson, 1999:1)

What distinguishes the present global capitalist economy from that of prior epochs is arguably its particular historical form. Over recent decades, the core economies in the global system have undergone a profound economic restructuring. In the process they have been transformed from essentially industrial to post-industrial economies. Just as the twentieth century witnessed the global diffusion of industrial capitalism, so at the beginning of the twenty-first century post-industrial capitalism is taking place (Held & McGrew, 2000:134).

A second question would be what the new global economy comprises of – implying, what makes it different from earlier conceptions of ‘international world economy’. An international world economy is constructed through the mutual interconnection or cross-border integration of national economic spaces. As Manuel Castells (2001:224) argues, a global economy is something different: “it is an economy with the capacity to work as a unit in real time on a planetary scale”. An international economy links distinct national markets; a global economy is more progressive in that it fuses national markets into a coherent whole (Hall & Biersteker, 2002:47).

By its nature, the new global economy is considered to be a new social structure – an unprecedented ‘network society’. It is centred around informational capitalism in that it has involved a structural transformation in the relations of production and power. As the new technological basis for this new economy, the Internet is creating new rules as it induces the networking form. It added a new dimension to global competitiveness and social interaction. This new social structure is considered to be a transition from ‘industrialism’ to the ‘network society’ and is associated with the diffusion of knowledge and innovation, not just technology *per se*. In being a people-based economy, it is strictly defining the role players by setting an exceptionally high

premium on human ability. Thus, with labour being the source of productivity and competitiveness in this new economy, the importance of capacity-building through education, training and skills-development has become ever more indispensable (Castells, 2001:115).

The global economy in its current state comprises the three major regions of North America, the EU and the Asian Pacific region. Around this triangle of wealth, power and technology, the rest of the world becomes organised in a hierarchical and asymmetrically interdependent web, as different countries and regions compete to attract capital, human skills and technology to their shores. Furthermore, it is primarily the core activities of the economy that are globalised. They are: financial markets; the information and communication technologies (ICTs) sector; international trade, particularly high value-added exports and the activities of MNCs; and lastly, the internationalisation of science and technology and human capital formation (Castells, 2001:224).

By putting it into context, the contemporary phase of economic globalisation could be distinguished from past phases by the existence of this new global economy transcending and integrating the world's major economic regions (Scholte, 1997:28, Dicken, 1998:110). By comparison with the *belle époque*, an era distinguished by relatively high levels of trade protectionism and imperial economic zones, the present global economy is considerably more open and its operations impact upon all countries, even those nominally 'pariah' states such as Cuba or North Korea (Nierop, 1994:52). In fact, regionalism has largely facilitated and encouraged economic globalisation since it offers a mechanism through which national economies can engage more strategically with global markets (Hanson, 1998:33). Although the contemporary global economy is structured around three major centres of economic power – unlike the *belle époque* or the early post-war decades of US dominance – it could be described as a post-hegemonic order in so far as no single centre can dictate the rules of global trade and commerce (Amin, 1996:48).

It must be emphasised, however, that this new global economy is not yet an all-pervasive uniform transition. It currently is very much in its infant stage and can therefore not yet be discerned as a truly global economy. Additionally, the diffusion

of this network society is still deeply uneven. There exist a growing gap, or ‘digital divide’, between those included and those excluded. Thus, rather than living in a world divided between rich and poor (an old feature of human societies), we are entering a new world characterised by a cleavage between those who are ‘in’ and those who are ‘out’ of the new system of wealth and power. This substantiate the fact that contemporary globalisation does not integrate everybody. In fact, it currently excludes most people on the planet but at the same time, affects everybody (Castells, 2001:11).

As a structural feature, the central characteristic of the network society can be recognised as: although it is being creative (in terms of continuous innovation), it simultaneously is destructive (in terms of its exclusionary effects). In this way the new global economy is unfortunately riddled with built-in contradictions. If one include the growing volatility of financial markets and the problems of over-production (world-production exceeding world-consumption) and also world-wide institutional failures, a ‘global risk-society’ is said to be emerging. Accordingly, all this underlines the already dual nature of the emerging new global economy: it is emblasoned by both a new optimism based on innovation and potential economic prosperity, as well as being economically and politically unsustainable – a central feature of global instability.

3.3 Governments and a transforming world economic order

With the current restructuring of the world economy has come a dramatic alteration in the form and organisation of global capitalism. In variously referring to ‘global informational capitalism’, ‘manic-capitalism’, ‘turbo-capitalism’, or ‘supraterritorial capitalism’, many observers seek to capture the qualitative shift occurring in the spatial organisation and dynamics of this new global capitalist formation (Castells, 1996:68, Greider, 1997:152 and Luttwak, 1999:163). In the age of the Internet, to simplify the argument, capital – both productive and financial – has been liberated from national and territorial constraints, while markets have become globalised to the extent that the domestic economy constantly has to adapt to global competitive conditions. Thus, inscribed in the dynamics of this new global capitalism is a powerful imperative towards the denationalisation of strategic economic activities.

Central to the organisation of the new global capitalist order is the multinational corporation. In 1997 there were 53 000 MNCs worldwide with 450 000 foreign subsidiaries selling \$6,5 trillion of goods and services across the globe (UNCTAD, 1998:16). MNCs already account, according to some estimates, for at least 20% of world production and 70% of world trade (Perraton *et al*, 1997:34). In the financial sector multinational banks are by far the major actors in global financial markets, playing a critical role in the management and organisation of money and credit in the world economy (Germain, 1997:145). The argument is that it is global corporate capital rather than states that exercises decisive influence over the organisation, location and distribution of economic power and resources in the contemporary global economy.

In this respect, governments and societies across the globe are having to adjust to a world in which there is no longer a clear distinction between international and domestic, external and internal affairs. Domestic matters have become internationalised and international affairs domesticated. This rapid interpenetration of economies is facilitated by a global drive for liberalisation of markets and a dramatic reduction of the commanding role of the government in national planning. As observed by Kenichi Ohmae (1995:59); “There is growing sentiment that that system itself – the much patched and mended apparatus of the modern nation-state – is an inadequate mechanism for dealing with the threats and opportunities of a world economy.”

In addition, the complete system of global economic governance has come under question as global changes are accelerating. Although the institutions created at Bretton Woods (the IMF, the World Bank, etc.) have adapted over their lifetimes, their ability to deal with contemporary global issues has fallen short of providing a more stable international environment (Held & McGrew, 2000:105).

Judging by the disputes within multilateral institutions as well as the adherence to nationalistic tendencies and practices despite their inefficacy, governments have displayed a lack of proficiency in coping with the challenges of globalisation. More specifically, the Commission on Global Governance (1996:137) stated that: “It is becoming increasingly evident that the pace of globalisation of markets is currently

outstripping the capacity of governments to provide the necessary framework of rules and co-operative arrangements to ensure stability and prevent abuses of monopoly and other market failures. National solutions to such failures within a globalised economy are severely limited.”

To this end, however, it must be emphasised that this study by no means attempts to discredit or advocate that governments in general are unable to govern their countries. Nor does it suggest that nation-states are not an integral part of the global system. What it does suggest, is that the role of governments in the global arena have come under tremendous pressure from various internal and external sources. Adjustments in the way they participate in the international environment are both inevitable and essential.

Economic globalisation is only one of many concurrent processes that at present contribute to the ever-advancing social evolution of human communities. In this regard, global economic integration is largely inevitable. It is clear that the present-day world economic order is in a ‘transitory phase’ evolving towards a higher level system of organisation and structural complexity. Economic integration, as part of a broader process of globalisation, has unleashed forces that are unparalleled in the social evolutionary history of humankind.

As noted by Abedian and Biggs (1998:24), the current transitory phase is characterised by two processes that may best be defined as ‘integrative’ and ‘disintegrative’ forces. Elements of the integrative process help expand the web of global interconnectedness, and promote transnationalisation not only of wealth creation, but also in human development. The technological revolution, global investment and international trade are the primary forces behind this process of global economic integration.

On the other hand, the disintegrative process contributes to systemic instability by creating environmental imbalances, large-scale impoverishment, and the polarisation of human societies at the national and global levels. Conflict, unequal wealth distribution, growing systemic risk, and increasing illegal global activities are all underlying realities of disintegration. Both of these processes, however, contribute to

the systemic transformation of the world economic order. It is clear that current global economic and political shifts, with their contradictory tendencies, pose a great challenge to securing a stable international environment.

Almost trapped between these opposing forces are governments and the wide-ranging need for new direction in global economic governance. With nation-states being placed under growing pressure by the changing nature of economic dynamics in the global sphere, the question of what the implications of this will be from a governance perspective, becomes of utmost importance. And with governments being part of the larger framework of global governance, the question of how the whole structure of global governance could change, will determine the degree of success with which the transitory phase is dealt with. Although, realistically, the contrasting forces identified in this phase will always to some degree exist, the governing ability to regulate and control them should unquestionably improve.

4. The great globalisation debate

A critical dialogue has opened up concerning the present form of the world economy; the dominant regime of capitalist accumulation; the modes and effectiveness of contemporary economic governance; and the robustness of national economic autonomy and sovereignty. The debate surrounding these issues is considered to be antithetical normative judgements about the perceived state of affairs. Although this debate, in its true form, highlights issues of dispute within the broad globalisation framework, it is the purpose of this study to keep discussions centred around the issue of how the role of governments are challenged in the world economic environment.

4.1 Conflicting views: the status of governments in the global economy

Hall and Biersteker (2000:3) emphasised that according to most traditional accounts this ability to rely upon legitimate authority for habitual obedience is largely absent in the international system. The absence of a global state has led many observers to deny the very existence of authority (Milner, 1991:71). Until recently, most explanations of international behaviour have concentrated on the coercion employed by governments or on the self-interested motivations of individual governments. This, to the virtual exclusion of the recognition by governments of the legitimacy and authority of rules and norms operating within the international system (Hurd,

1999:385). Not only have nation-states been asserted to be the principal actors in the international arena, but they are also considered to be the only legitimate actors in international relations.

However, during the latter decades of the twentieth century, it became increasingly obvious that there were a growing number of theoretical and empirical challenges to these traditional conceptions about authority and the international system (Brown *et al.*, 1995:101-105). There is a growing recognition of degrees of order and institutionalised, patterned interaction within the international system. Forms of governance without the presence of formal state or interstate institutions have been identified in the international arena (Kratochwil, 1989:201; Rosenau & Czempiel, 1992:159).

International regimes, conventions, norms and ideational convergence facilitate aspects of global governance. Keohane and Nye (1977:98) noted that the boundaries between the domestic and the international have also begun to blur. Issues that were once solely under the purview of domestic law, politics and economic decision-making, such as environmental standards, labour regulations and economic policy-formulation, are both influenced by, and increasingly affect, international law, politics and economic objectives. At the same time, a growing number of actors – actors other than nation-states – appear to have taken on authoritative roles and functions in the international system (Hall & Biersteker, 2002:4). Often closely associated with the phenomenon of globalisation, these new actors include, but are not restricted to, the apparent authority exercised by global market forces.

Against the above background, it is clear that the literature on the subject of global economic governance and the role of the government is generally divided between two mainstream schools of thought; the globalists and the sceptics. The debate between globalists and sceptics involves fundamental considerations about the nature of world order – as it is and as it might be. The sceptics argue that the new challenges of growing internationalism do not diminish the state-centric world. They discount the presumption that internationalisation prefigures the emergence of a new, less state-centric world order.

Far from considering national governments as becoming immobilised by international imperatives, they point to their growing centrality in the active promotion and regulation of cross-border activity. National governments, sceptics hold, remain central to the governance of the world economy, since they alone have the formal political authority to regulate economic activity. And additionally, they contend that all economics is principally national or local. As most states today rely, to varying degrees, on international flows of trade and finance to ensure national economic growth, the limits to, and the constraints on, national economic autonomy and sovereignty have become more visible, especially in democratic states. Historically, however, these constraints are no greater than in previous epochs when international interdependence was much more intense. The *belle époque*, for instance, was precisely the era during which nation-states and national economies were being forged (Held & McGrew, 2000:22).

Globalists take issue with these contentions, for it completely overlooks the ways in which national governments are continually challenged to adjust to the constant tug-of-war taking place in the global marketplace. At the heart of the globalist thesis is the conviction that globalisation is transforming the nature and form of economic and political power today. Globalists argue that the right of most states to rule within circumscribed territories – their sovereignty – is on the edge of transformation, as is the practical nature of this entitlement – the actual capacity of states to rule. According to this line of reasoning, contemporary processes of globalisation are historically unprecedented.

For some globalists, globalisation involves a ‘massive shake-out’ of societies, economies, institutions of governance and world order. In this view, contemporary globalisation is reconstituting the power, functions and authority of national government. In this world, national governments are relegated to little more than transmission belts for global economic change, or, at best, intermediate institutions and mechanisms sandwiched between increasingly powerful local, regional and global mechanisms of power and authority. Other globalists take a less radical view. They talk less in terms of ‘the end of the state’ and more in terms of a new spectrum of political developments and adjustment strategies in which the state finds itself relocated in multiple regional and global networks.

In the judgement of the sceptics, national governments remain, for the most part, the sole source of effective and legitimate authority in the governance of the world economy, while also being the principal agents of international economic coordination and regulation. As an example, the actions of the United States, as the world's largest single economic agent, remain critical to the smooth functioning of the world economy. Sceptics hold that, in effect, the governance of the world economy still remains reliant, especially in times of crisis on the willingness of the most powerful state(s) to police the system – as indicated by the East Asian crash of 1997-8. However, even in more stable times, it is the preferences and interests of the most economically powerful states, in practice the G8 governments, that take precedence. Economic multilateralism has not rewritten the basic principles of international economic governance, argue the sceptics, for it remains a realm in which might trumps right: where the clash of competing national interests is resolved ultimately through the exercise of national power and bargaining between governments (Held & McGrew, 2000:22).

In leaning towards a more globalist perspective, Michael Mann (1997:478) identified four supposed 'threats' – global capitalism, environmental danger, identity politics and post-nuclear geopolitics. Mann, interestingly, argues that all four impact differently on nation-states in different regions, and contain both "state weakening and strengthening tendencies, and increase the significance of inter- as well as transnational networks". These "human interaction networks", he points out, "are now penetrating the globe in multiple, variable and uneven ways".

From a true globalist point of view, Susan Strange (1996:72) stresses that politicians and governments have lost the authority they used to have and that their command over outcomes has diminished. Her argument is that "the impersonal forces of world markets, integrated over the postwar period more by private enterprise in finance, industry and trade than by cooperative decisions of governments, are now more powerful than states." Both the authority and legitimacy of states are in decline and, as a consequence, a serious vacuum is opening up in the international order; "a yawning hole of non-authority, ungovernance it might be called."

Hettne (1998:271) furthermore emphasised that there has been a major expansion of market forces, creating the need for new institutions of political accountability and control. In this context, the writer added that world regions can and do complement the expanding scope and reach of global forces. Hettne asserts that a shift is underway: from the territorial logic of state control to the emergence of regional systems of states. In his judgement, the processes of globalisation and of regionalisation are in fact complementary.

While accepting some of the central arguments of globalists, Giddens (1990:188) and Beck (1999:131) hold that the present era of globalisation has to be understood as embodying much more than simply a capitalist logic. The driving forces of globalisation are also to be found in the dynamics of technology, communication, international relations, and the global diffusion of risks – from the ecological to the financial. Rather than globalisation defining a new post-modern age, in which the local is superseded by the global, both of them point to the growing tensions between a world still primarily organised by the ‘modern container’ of social life – nation-states – and new patterns of socio-economic organisation which transcend them. Such tensions produce an ongoing dialectic of change and uncertainty – a global risk society.

Giddens (1990:190) added that it is a society in which global and the local intersect in complex ways, reshaping the conditions of contemporary social life with many unintended consequences. Globalisation, in this view, defines a process of global social change but one which is still anchored in the institutions of the modern era. In this regard, interestingly, there is some common ground between the globalists and the sceptics. Of significance is the fact that they agree that there has been an expansion of international governance at regional and global levels – from the EU to the WTO – which poses significant normative questions about the kind of world order being constructed and whose interests it serves. While clear trends in the development of global economic governance can be detected, there is still considerable room for debate as to how these developments will eventually crystallise (Held & McGrew, 2000:38, 108).

5. The asymmetry-problem

Stephen Kobrin (1997:148) observed that globalisation is disturbing the basic symmetry of political organisation (governments) and economic organisation (financial, services and product markets). He added that markets expand in space well beyond the limits of government control and national territories. A rising asymmetry is emerging between the rule of government and globally expanding markets. Thus, Held and McGrew (2000:11) are led to believe that “the exclusive link between territory and political power has been broken”. Robert Gilpin (2000:108) confirmed that “many observers believe that a profound shift is taking place from a state-dominated to a market-dominated international economy”.

The asymmetry-problem is considered to be the central issue when it comes to finding the reasons for why the role of governments is being challenged in the new global economy. Nation-states are considered as too small to be able to influence global change, and too large to respond effectively to pressures for increased flexibility and competitiveness, or as Giddens (1999:124) put it: “too small to solve the big problems, but also too large to solve the small ones”. This means that governments are increasingly vulnerable (in the context of global change) because they are fundamentally defined (and restricted) through their supreme jurisdiction over a demarcated territorial area. As markets are facilitating the massive explosion of cross-border economic activity, the authority and sovereignty of nation-states are being fundamentally challenged.

As a matter of fact, it is the combination of the asymmetry together with the increasing role of various multilateral institutions and other non-state role players, which give further meaning to the way in which governments are being challenged. Given the asymmetry-problem, this factor serves to intensify the existing pressure on governments as institutions like the IMF, World bank and WTO and other role players are increasingly involved in authoritative global decision-making. This form of decision-making generally has a direct impact on nation-states and constitutes an increase in the influence of these institutions in international affairs.

Furthermore, the existing multilateral institutions of global economic governance, especially the IMF, World Bank and WTO, are conceived primarily as the agents of

global capital and the G8 states. This judgment is based on the presumption that they advocate and pursue programmes which simply extend and deepen the hold of global market forces on national economic life (Gill, 1995:410 and Korten, 1995:123). It is argued that for the most part, the governance structures of the global economy operate principally to nurture and reproduce the forces of economic globalisation, while also acting to discipline this nascent 'global market civilisation' (Gill, 1995:419 and Hoogvelt, 1997:112).

Far from globalisation leading to 'the end of the state', it is bringing into being a more activist state. This is because, simply to achieve their domestic objectives, national governments are forced to engage in extensive multilateral collaboration and co-operation. But in becoming more embedded in frameworks of global and regional governance, states confront a real dilemma. In return for more effective public policy and meeting their citizens' demands, the state's capacity for self-governance – that is, state autonomy – is compromised (Held, 2000:163). Consequently, there exist sensitivity over the relationship between international responsibility and national sovereignty, and is therefore a considerable obstacle to the leadership at the international level. Locked into an array of geographic diverse forces, national governments are having to reconsider their roles as a shift is taking place from government to multilevel global governance (Commission on Global Governance, 1996:1).

Moreover, it is fascinating that one of the central contradictions of the new economic order pertains to its governance. For the globalisation of economic activity exceeds the regulatory reach of national governments while, at the same time, existing multilateral institutions of global economic governance have limited authority because states, to some extent, refuse to cede them substantial power (Zürn, 1995:117). Under these conditions, assert some of the more radical globalists, global markets effectively escape political regulation such that economic globalisation is in danger of creating a 'runaway world' (Giddens, 1999:286 and Burbach *et al*, 1997:204). Governments, therefore, have no real option other than to accommodate to the forces of economic globalisation (Cox, 1997:96).

The governance structures of the global economy are conceived by some observers as having considerable autonomy from the dictates of global capital and/or the G8 states (Shaw, 1994:24, Shell, 1995:71, Hansenclever *et al*, 1997:243 and Herod *et al*, 1998:63). According to these authors, multilateral institutions have become increasingly important sites through which economic globalisation is contested, by weaker states and the agencies of transnational civil society, while the G8 states and global capital find themselves on many occasions at odds with their decisions or rules. Furthermore, the political dynamics of multilateral institutions tend to mediate great power control, for instance through consensual modes of decision-making, such that they are never merely tools of dominant states and social forces (Ruggie, 1993:19) and Roberts, 1998:44).

Within the intricacies of the system of global economic governance operate the social forces of an emerging transnational civil society, from the International Chamber of Commerce to the Jubilee 2000 campaign, seeking to promote, contest and bring to account the agencies of economic globalisation (Ekins, 1992:100 and Castells, 1997:31). In this respect, the politics of global economic governance is much more pluralistic than the sceptics admit in so far as global and regional institutions exercise considerable independent authority.

This brings to light another contributing factor to the asymmetry-problem – that of the role and influence of a growing transnational civil society. The globalisation of economic and political activity has been accompanied by the emergence of a new kind of ‘network politics’. In mobilising and organising resistance to the rule of global capital, it seeks to make global markets and global institutions work in the interests of the world’s peoples rather than the other way round. This ‘governance from below’ represents an alternative politics of protest and transnational mobilisation. By implication, citizens’ allegiances and identity are no longer exclusively defined by nationality or membership of the nation-state. Especially now, with the emergence of virtual communities and the Internet as a ‘new public sphere’, governance from below is likely to become a more, rather than less, significant channel through which governments and global institutions could be pressurised in a collective fashion (Held, 2000:154, 164).

It is clear that national governments are not so much losing power, but are having to adjust to a new context in which their power and sovereignty is shared and bartered among other public and private agencies – above, below and alongside the nation-state. This emphasises the fact that although the asymmetrical relationship between governments and markets is worsening, the problem is further augmented by challenges from both global institutions (multilateral, regional and corporate) and transnational civil society to the state's authority and sovereignty. All this is putting pressure on governments, and as a coping mechanism, they are compelled to continue adjusting their role in the international arena.

As a force that transcends the mere 'international' with its inescapably statist foundations, globalisation is seen as undermining the traditional sovereign state, rendering its boundaries almost meaningless and its governments virtually impotent – especially in a post-Cold-War era of triumphant global capitalism. In this formulation the traditional tension between the state and the free market is resolved in favour of the latter (Lawson, 2003:19). Thus, given the forceful nature of globalisation and the fact that governments are compromising their authoritative position as a result of all the pressure, it creates a problem: their legitimacy in both the global economic governance framework and the broader new global economy is being questioned. Under these conditions there exist sufficient grounds to conclude that the role of governments in the new global economy is indeed challenged.

6. Concluding remarks

The study highlights fundamental changes that are taking place in the global economic environment. These changes accentuate the escalating impact of globalisation in international affairs and, more specifically, defy the role played by governments in the world economy. This, though, is not to say that states themselves have radically changed, it is predominantly their position in the global environment which is disputed. Based on the preceding discussions and arguments, it is evident that the role of governments in the new global economy is certainly under challenge. This study would therefore consider the grounds supporting the initial claim (made in the introduction), as valid. In the same vein, though, the study finds it necessary to stress the importance of much-needed adjustments in the way global economic governance is currently structured.

It is clear that globalisation presents modern theories on democracy and the free market system with a daunting task: how to reconcile the principle of rule by the people with a world in which power is exercised increasingly on a transnational, or even global scale. Added to this, the issue on how to reconcile the principle of equality with a world in which competition and profit-seeking is defining the nature of almost all economic activity. Although the task of promoting global economic governance is very important, it must be recognised that it is immensely difficult.

Halliday (2000:51) confirmed this in saying that “it involves some deep resistances in the international system and some obstacles that have arisen in the very process of global change over recent years”. The argument is not whether such a system is desirable or not because a multi-layered global governance system already exists, and to overcome its defaults through reform has for decades been generally indisputable. The question, however, is how to make this governance system more effective, more just, and more responsive to the changing international situation.

It is essential to recognise that the structure of global economic governance is becoming increasingly inadequate to govern the massive explosion of cross-border economic activity. Due to the lack of appropriate systems of global economic governance, markets are currently expanding in such a fashion that the gap between rich and poor countries is rapidly widening. The continuance of this situation is considered to be a serious threat to global stability. It is generally accepted that this state of affairs is unsustainable over the long term. This is especially true in the case of the Third World which is already living on a knife’s edge. Accordingly, it is obvious that changes to the structure of the international system, specifically from a governance point of view, are becoming indispensable.

Having emerged as central pillars in the structure of global economic governance, the IMF, World bank and WTO should be the institutions leading an unrestrained structural reform initiative. Stakeholders from both the First and Third World should be drawn in and made part of the reformation process. All this though, should be done in a manner that makes those involved (institutions, regional organisations and nation-states) more democratic and more accountable to contemporary norms of democratic governance. In the end, the ethic of equality before the law is essential to

guard against the temptation to authoritarianism – the predilection of the strong to impose their will and exercise domination over the weak (Commission on Global Governance, 1996:66).

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