

On the Role of the State in an Increasingly Borderless World

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Abstract

Modern theories of relations between states seem to advocate polarized worlds, where nations are either headed toward inter-civilizational clashes or liberal-democratic uniformity. Similarly, theories of globalization posit either hyperglobalization or state-centric scenarios. While it is unlikely that such extremities are realistic, states would need to remain relevant by adopting policies that understand and embrace these tensions in a globalized world. This essay seeks to formulate a framework for understanding the role of the state in a world where borders are becoming increasingly transparent. In doing so, it adopts a multidisciplinary perspective, drawing from research in international economics, global politics, and sociology. It links theory to application by arguing that the role of the state is to address each of these rationales for state formation, in the context of globalization. As traditional rationales for state formation and existence are rapidly being redefined, states need to adapt to these altered circumstances. This essay shows that there exist policy options that would allow the state to play a central role in this transition.

Keywords: Role of state, globalization, policy options

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I. Introduction: A Tale of Two Globalizations

Modern theories of relations between states seem to increasingly lean toward caricatures of a world where countries are either hurtling toward an epic “clash of civilizations” (Huntington 1996), or gradually converging on a uniform “end of history” (Fukuyama 1992). Those subscribing to the beliefs of the former – a theme that has been emphasized time and again in the Western media – assert that

...the fundamental source of conflict in this new world will not be primarily ideological or primarily economic. The great divisions among mankind and the dominating source of conflict will be cultural. National states will remain the most powerful actors in world affairs, but the principal conflicts of global politics will occur between nations and groups of different civilizations. The clash of civilizations will dominate global politics. The fault lines between civilizations will be the battle lines of the future (Huntington 1996, p. 1)

Those entrenched in the latter school of thought draw from the placid but inevitable march of the Hegelian dialectic:

[L]iberal democracy may constitute the endpoint of mankind’s ideological evolution and the final form of human government, and as such constitute[s] the end of history... there would be no further progress in the development of underlying principles and institutions, because all the really big questions had been settled... we are now at a point where we cannot imagine a world substantially different from our own. (Fukuyama 1992, pp. xi-xii, p. 51)

Similar theoretical extremities exist in the literature on globalization. On one hand, authors that argue in accordance to the hyperglobalization hypothesis hold a fatalistic view on political (Camilleri & Falk 1992) and economic (Ohmae 1995) sovereignty in a globalized world. Ohmae (1995, pp. 8-9) makes the case:

Public debate may still be hostage to the outdated vocabulary of political borders, but the daily realities facing most people in the developed and developing worlds – both as citizens and as consumers – speak a vastly different idiom. Theirs is the language of an increasingly borderless economy, a true global marketplace... the traditional nation states [have begun] to come apart at the seams... in economics as in politics, the older patterns of nation-to-nation linkage have begun to lose their dominance... [T]he uncomfortable truth is that, in terms of the global economy, nation states have become little more than bit actors. They may originally have been... independent, powerfully efficient engines of wealth creation. More recently, however, as the downward-ratcheting logic of electoral politics has placed a death grip on their economies, they have become – first and foremost – remarkably inefficient engines of wealth distribution... [W]hat this combination of forces at last makes clear is that

the nation state has become an unnatural – even a dysfunctional – organizational unit for thinking about economic activity. It combines things at the wrong level of aggregation.

On the other, there is the largely state-centric view (Hirst & Thomson 1999, pp. 2, 15-16) that believes in the maintenance of the *status quo*, albeit with some international pressure:

Globalization, as conceived by the more extreme globalizers, is largely a myth... the world economy is far from being genuinely “global”... the maximum point of change in the post-1945 international regime does not seem to have produced an acephalous system based on unregulated supranational markets... the economic liberal push in the early 1990s has also failed to produce such an outcome.... [Empirical] evidence is consistent with a continuing inter-national economy, but much less so with a rapidly globalizing hybrid system.

This leads one to question whether the state is an artifact of institutional history; alternatively, the converse can be questioned: How can the state be relevant in this increasingly globalized world? After all, globalization is a siren song, promising rapid economic development together with the attendant benefits of modernity. To take the argument a step further: Does it even make sense to formulate a theory of the nation state in the modern world?

Clearly, such strong ideological stances hark well in academic discourse, where intellectual differentiation is the rule of the day. More practically, however, the answer will probably lie faintly etched somewhere between these polar extremes in the interpretation of the world. A more moderate opinion – that does not condescend to such polarity but nonetheless recognizes the reality of the forces of globalization – is to take the middle road: The world will neither descend towards civilizational anarchy, nor will it attain a liberal-democratic nirvana. And while the state is still important, its role is presently being redefined in the context of globalization; states are not entirely powerless under the relentless march of global forces. Indeed, this latter view does have precedence in the literature. Clark (1999, p. 18) has made a reasoned for a position that is closer to the middle ground: One that embeds “a theory of the global... [as] an integral dimension of a more plausible theory of the state”. Likewise, Weiss (1997, p. 20) alludes to the ability of a state to intervene via policy decisions, while being subject to the checks and balances imposed by globalization: “[A] state’s capacity... primarily rests on institutional arrangement which make key decision-makers... at once ‘autonomous’ and in some respects ‘accountable’.”

What this suggests, then, is that far from becoming irrelevant, the state needs to aspire towards cogency in a world that constantly threatens to erode the basis for its existence. This will not occur if the state remains a passive actor – it is essential that it engage in policies that would guarantee its continued applicability. Neither can the state expect itself to be the sole, principal unit of analysis.

Indeed, nation states that do not subscribe to an active, adaptive approach, while at the same time being cognizant of the impact of other states, multinational corporations, and international organizations, might find themselves increasingly marginalized, and rendered impotent in an increasingly borderless world.

This essay therefore subscribes to this intermediate view. In contrast to the existing literature, however, it adopts a position that situates itself not just between the hyperglobalization-state-centricism continuum, but also places itself within the extremes embodied by the clash-of-civilizations and end-of-history approaches. Indeed, it is our claim that there is tremendous complementarity between the two themes, and hence they should be treated as different perspectives on the same underlying model. In accordance with the argument, the essay shall attempt to provide a framework for understanding the role of the state in a world where the processes of globalization are advancing inexorably. In doing so, it adopts an explicitly multidisciplinary perspective, drawing from contemporary research in international economics, global politics, and modern sociology and cultural studies.¹ Although there is no singular policy stance that is likely to bear currency in all cases, this essay will endeavor to outline key policy options that are available to policymakers seeking to maintain the value of the state. As such, the essay hopes to serve not only academic interests, but also practical ones.

The organization of the essay is as follows. After this introduction, the theoretical foundations of the study, which draw upon economic, political, and sociological theories of the state, will be sketched. This is followed by a discussion of the menu of policy options available, drawing heavily upon the ideals and challenges presented in the theoretical section. A final section concludes by restating the key concern – that is, whether there is a valid role for the state – by tying together the arguments presented in the essay.

II. Foundations of a Unified Theory

The phenomenon of globalization is not – contrary to common assumption – new to this generation. Indeed, as John Maynard Keynes has written in his 1919 classic *The Economic Consequences of the Peace*:

The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably

¹ Held *et al* (1999) is probably the most balanced treatment on the manifold multidisciplinary aspects of globalization. The present work differs from that excellent book in two ways: first, it adopts an explicit state-theoretic focus; and second, it has a far stronger emphasis on policy implications for the state.

expect their early delivery upon his doorstep. He could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages. Or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality. He could dispatch his servant to the neighboring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference. But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable.

The distinction at our present time, then, lies in three novel and somewhat overlapping aspects. First, the overwhelming coupling afforded by advances in information and communications technology has made it impossible to remain a hermit to events happening in the rest of the world. Second, and as a consequence of the first, this real-time interactivity has sensitized nations to the need to confront these episodes in the nations around them. Hence, the world is simultaneously experiencing an unprecedented political and socio-cultural globalization. This has led to the proliferation of terms to describe this phenomenon, how in our “global village” we are now “citizens of the world” who would need to acknowledge the “international interconnectivity” of a global economy, polity, and culture. Third, the breakup of the Soviet Union coupled with the subsequent retreat of Marxism worldwide imply that ideological distinctions are taking a back seat to socio-cultural differences and – for better or worse – these tend to be more permissive toward syncretism. In sum, globalization today is a far more pervasive and encompassing phenomenon than it was in the past.

It is within this concerto of globalization that modern states find themselves, more often than not as secondary players. For the purposes of this essay, the use of the term “state” will consist of both theoretical and practical notions. In the *theoretical* respect, “states” will be held to mean that of nation-states; that is, an independent actor possessing political (and often geographical) boundaries, which is engaged in domestic as well as international activity. This conceptual definition draws utility from three main motivations: First, its delimitation as a nation-state captures the overwhelming majority of modern political entities in existence in the 21st century; second, it readily extends itself to economic and sociological contexts – for example, the small open economy or the socio-cultural State; and

third, it provides a tractable unit of analysis without the attendant complications inherent in considering intra-nation complexities.²

Nonetheless, as the essay's focus is on policy options, a practical use of the term "state" is required. As such, the *functional* definition will encompass the various roles that governments within these states take on, including, but not limited to, the hats of economic and industrial policy, domestic and foreign policy, and social and cultural policy. Therefore, this definitional dualism opens the door to a discussion of both modern state theory as well as modern policymaking.

Theories of state formation hold that states exist due to a host of reasons, not all of these mutually exclusive: Historical, militaristic, political, economic, and socio-cultural. States form due to historical precedent – as the formalization of the occupation of new territory – such as the founding of states in South America. Closely tied to this is the militaristic rationale, especially in the imperialist expansion and conquest of the North African and East Asian colonies, many of which subsequently experienced independence. The political logic for state establishment can often be distilled into ideological determinism – as in the case of the separation and subsequent reunification of Germany – or through an increasing sense of nationalistic identity, which led to the *Risorgimento* that gave rise to modern Italy. Furthermore, states can and often do arise out of economic considerations (and possibly conflicts), best exemplified by the Meiji Restoration that led to modern Japan. Finally, and perhaps most fundamentally, states are the product of socio-cultural reasons: A desire to associate, affiliate and conjoin with peoples of a similar culture, ethnicity, or social class. This can be seen as the overarching framework that demarcates the multiplicity of nations in the world today.³

Both the historical and militaristic bases for state formation are themes echoed in the new institutionalist literature. The school posits that configurations of states exist through the structure

² This nevertheless raises the uncomfortable proposition of where exactly a supra-national amalgamation of states, such as the European Union, lies. This essay sidesteps that ontological difficulty by supposing that bodies like the EU can be safely treated as states, while bodies with no territorial or population-related jurisdiction are regarded either as international institutions or multinational corporations, as appropriate. For further examples of the three, see footnote 14.

³ The path dependency of historical institutionalism (March & Olsen 1984; Evans *et al* 1985) accords well with the theory of historical precedence as a reason for state formation. The militaristic rationale for state existence is probably best understood as the Weberian expression of power and authority in Weber (1968), whose writings also set the stage for the economic motivation for the state. The latter has been well propounded by the rational choice school, an example of which is Levi (1989). Purely political logics are the mainstay of neo-Marxist and neo-liberal authors; for examples of each see Jessop (1990) and Putnam (1993), respectively. The culturalist approach to the state probably found its intellectual roots in Foucault (1991), and is captured by the many papers in the volume edited by Steinmetz (1999).

that pays attention to the endogeneity of political institutions, the complexity of political processes and its implied potential for historical inefficiency, and alternative logics of action. For example, in the case of British 19th-century colonialism in Southeast Asia, therefore, an analysis would begin by identifying the key institutions of the British East Indian Company, the Anglican Church, and the other major colonialist nation of Holland as the major institutions involved. It would then proceed in establishing the complex web of interactions between them, and argue that their driving forces are well captured under the banner of “gold, God, and glory”. As a result, their actions led to the creation of states such as Singapore.

An analysis of state creation that is premised largely on political foundations would suggest that states emerge from the distension between one ideology with another. As the iron curtains that defined the Cold War begin to be torn down across the world, the struggle in political ideology has shifted away from the socialism-liberalism frontier. Indeed, it appears – upon cursory examination – that the lines are drawn closer towards cultural or civilizational distinctions. Yet, to pronounce the politics of ideology dead is to ignore the empirical reality of the continued struggle between the far right and more moderate forces that is tearing at the fabric of Austria. It is to also disregard the subtler, but nonetheless real, strain between proponents of the welfare state and those that support free-market capitalism; a strain that has led to crises in both Argentina and Uruguay. At the dawn of the 21st century, the traditional chasm between the left and the right appears far from bridged. What is worse, new ideologies, such as that between modernity and post-modernism, threaten to lead to ever-newer ideological struggles.

The harnessing of economic resources and its hegemonic concentration has led theorists to surmise an economic basis for state formation and development. This has found expression early in recorded history, such as in Republican Rome, through to more contemporary variants – as has been put forward for countries such as Australia (Levi 1989). This search from productive and allocative efficiency is characterized by heads of state who

...maximize the revenue accruing to the state subject to the constraints of their relative bargaining power, transactions costs, and discount rates. Relative bargaining power is defined by the degree of control over coercive, economic, and political resources. Transactions costs are the costs of negotiating an agreement on policy and the costs of implementing policy. The discount rate refers to the time horizon of a decision-maker. The more an individual values the future relative to the present, the lower the discount rate (Levi 1989, p. 2).

Finally, a concept that has gained ascendancy and applicability is the culturalist approach to states. The cultural turn in state theory essentially acknowledged not just the primacy of socio-cultural

influences on state makeup, but rejects any artificial autonomy of the state *vis-à-vis* society and economy. This has led to the embracing of how race, religion, and ethnicity make states, as much as, conversely, how states define these factors. In the words of one scholar (Bourdieu 1999, p.61), “[c]ulture is unifying: The state contributes to the unification of the cultural market... and by effecting a homogenization of all forms of communication... it thereby contributes to the construction of what is commonly designated as national identity”.

Nowhere is this refrain clearer than in the “clash” proposition highlighted in the introduction. Does this then close the “end of history” argument? Hardly, for even as states continue to align themselves according to cultural or civilizational traits, the preceding section would have amply demonstrated the complex cobweb of other influences that exist in the international arena.

Clearly, economics, politics, socio-cultural geography, and security issues all continue to exert an undeniable impact on states, so any complete understanding of its role in a globalized world would necessitate a comparative analysis that draws from all these strands. Likewise, these threads must be drawn together into a weaving of policy ideas that give due weight to these factors.

Economic policy has to seek to maximize economic advantages that accrue to the nation, through policies that foster development and maintain economic progress and prosperity. Policies dealing with political issues would need to fill the ideological need in individuals for a sense of participatory government, and at the same time engender a sense of pride and belonging to the state, via policies that entrench roots, build ties, and develop national self-identity. In other words, by institutionalizing preferred configurations, states can create a structure that yields the desired path-dependent outcomes. Defense policy would have to provide a *true* sense of security – both direct and indirect – through actions that bolster the preventive capacity of a nation to protect itself, yet without excessively indulging itself in an arms race that might sow the seeds of self-fulfilling prophecy. This would ensure that militaristic power structures are diffuse, such that diplomacy and international pressure are all credible foreign policy options.

Finally, social policy has to encourage a sense of community and cultural identity, while being careful not to narrowly delimit the boundaries of this community through policies that are selectively biased on the basis of ethnicity, gender, religion, or social status. Simultaneously, governments would have to prevent the alienation of social groups through positive policy that emphasizes and enhances integration within the state. In addition, there should be no discounting of the critical leverages of culture; indeed, there is a need to see cultural factors as a contingent umbrella by which all other aspects of state policy should be understood and analyzed. This promotion of unity even in the midst of diversity is a delicate balancing act.

As highlighted in the introduction, the middle-ground position is not entirely unprecedented in the literature. Berger (2000) considers the impact of changes in the international economy on domestic society and politics, and finds that globalization, paradoxically, refocuses political attention on the role of the state on the boundaries of national territory. Clark (1998, 1999) has sought to place the phenomenon of globalization within the a theory of the sovereign state; the analysis thus regards issues such as competition, security, and welfare as domains within which the state continues to exert its sovereignty, subject to changes wrought by globalization. Weiss (1997, 1998) contends that the strength of external economic pressures nonetheless remains determined domestically, and is dependent on the strength of domestic institutions, while acknowledging that adaptations to the international environment nonetheless remains important to guarantee continued viability.

For all their merits, the existing treatments have largely adopted narrower models that do not seek to explicitly integrate the different threads that constitute the spatial continua between the hyperglobalization-state centrism and neoliberalism-civilizational conflict schools. The advantage of drawing on recent advances in state theory is that it unifies these hitherto disparate treatments into a coherent framework that translates well into policy implications. In that sense, this section has illustrated that only through careful consideration of the dynamic interrelationships between theory and policy can there be an integrated approach to modern policymaking – one that uses the various theories for state existence as a building block for policy to ensure the state’s continued relevance.

III. Policy Options in an Increasingly Borderless World

Any integrated approach to policymaking in the globalized world requires due attention to the theoretical rationales for state formation. Such considerations are not frivolous; without addressing these motivations, states cannot profess to remain pertinent in a borderless world. Ergo, this section will build policy recommendations from the various elements established in the earlier theoretical framework. Broadly, these can be delineated into the corresponding economic, political, militaristic, and socio-cultural aspects.⁴

Domestic economic policy can no longer afford to treat economies as closed entities. Instead, any attempt at stabilization policy would need to consider the possible implications of extrinsic as well as counterbalancing effects that derive from open borders. For example, open-economy

⁴ Berger (2000) adopts a different taxonomy that includes macroeconomic sovereignty, industrial policy, the welfare state, and national varieties of capitalism. Her emphasis on these more economic aspects of globalization is due to the adoption of a framework that focuses on the hyperglobalization-state centrism distinction that does not fully account for neoliberalism-civilizational conflict, which would introduce stronger political and cultural considerations.

macroeconomics would suggest that fiscal policy would become increasingly impotent as a macro-level tool, and is probably better suited to micro-level incentives in targeted industries or sectors.⁵ By the same token, monetary policy would need to consider the influence of capital inflows and outflows from the rest of the world, which would have the potential to dilute or intensify the effects of interest rate changes. To take the argument a step further, monetary policy would need to be increasingly subject to exchange rate considerations, since a strong currency – through the channel of exports – could have as much an ability to trash economic expansion as dampened domestic investment demand can. This is not limited to small economies – witness the willingness of the Bank of Japan to intervene in stemming the rise of the yen in 2001, so as not to threaten its nascent economic recovery.

Industrial policy will become a greater challenge, since any attempt to “pick winners” might prove to be a bet against the wider world market. A better solution would be to identify general world trends, and consent to favorable tax incentives for entire industries, not just a narrow sector or product.⁶ This would allow entrepreneurial market activity to ascertain the comparative advantages that accrue to the country, rather than attempt to discover them through limited government resources. Moreover, these resources are far better directed towards the provision of critical, modern infrastructure, such as a countrywide information architecture or, more fundamentally, transport and energy infrastructure. As such, the delicate balance between the state and multinational corporations is ignored at peril.

The application of the state in development would also require careful reassessment. Standard growth theory would recommend the accumulation of capital as the fundamental driver of growth; with the advent of new growth theory, endogenous growth can now be engendered by technological innovation, human capital development, and the introduction of new general-purpose technologies. This recognition of the benefits of investment in research and development, education, and technology diffusion is good advice for states as well. After all, in an increasingly borderless world, the strategy of banking on traditional harbors of comparative advantage is gradually giving way to one of finding niches where competitive advantage may lie. In this respect, the *physical* infrastructure

⁵ The standard reference for modern open-economy macroeconomics is Obstfeld & Rogoff (1996).

⁶ A common critique raised against this strategy is the “hollowing out” claim that as states increasingly withdraw from the economy, they are trapped in a “race to the bottom” in terms of tax competition. Unfortunately, such criticisms are often not robust. For example, a slight tweaking of assumptions may yield a “race to the top” scenario, the completely opposite outcome (Krugman 1997). The empirical evidence is also not supportive of the “race to the bottom” hypothesis (Garrett 1998).

(alluded to above) should also be buttressed by a sound *nonphysical* infrastructure, such as a legal system that respects individual property ownership in both physical and intellectual assets, and actively supports such endeavors. As shown clearly by the recent high-profile move of a leading stem-cell researcher from the U.S. to England, as well as the influx of Indian software programmers into Silicon Valley, brain drain is a real hazard in a globalized economy; this problem is exacerbated by a nonphysical infrastructure that does not evolve according to changes in the economic climate.⁷

International economic policy would need to be conscious of increased international interactions as well. As the recent vociferous reaction from the world community to U.S. steel tariffs has amply testified, trade policy decisions do not occur in a vacuum. The rubric of WTO membership will undoubtedly impose constraints on trading strategies. In this context, nations – especially developing nations – can and increasingly will assert their right to truly free, unfettered trade, and any crumbling to domestic protectionism would lead to international outrage and protest, at best, and retaliatory measures, at worst. This latter scenario is a prisoner’s dilemma, and one that modern states will do best to avoid. Besides, the theoretical literature has little or no conclusive evidence supporting the economic efficacy of protectionist measures, even in the large-country case.⁸

Still, rudimentary trade theory suggests that there are potential gainers and losers in trade liberalization.⁹ Given the strictures outlined above, states can seek to offset the political-economic pressures that oppose trade through limited redistributive policy. The most practical approach to this is via trade adjustment assistance; more specifically, a program providing retraining credits and short-term relocation aid can be introduced as part of a broader cooperative trade agreement. This can potentially reduce the residual distortionary costs of the remaining tariffs under the agreement, and

⁷ Barro & Sala-i-Martin (1995) provide an excellent reference to the work on both exogenous and endogenous growth theory. The extension of growth theory to the open-economy concept is best explicated in Grossman & Helpman (1991). The volume edited by Foray & Freeman (1993) deals more specifically with technology as a driver of growth. On the subject of establishing comparative and competitive advantages in a seamless world, see Fujita *et al* (1999) and Porter (1990), respectively.

⁸ Bhagwati *et al* (1998) discuss the possible merits of the imposition of an optimal tariff, which might have a positive effect on a country’s welfare, although this point is heavily dependent on the assumption of tariff non-retaliation. All things considered, the vast majority of discipline remains opposed to tariffs.

⁹ Deardorff & Stern (2002) provide an excellent summary of the main points relating static as well as dynamic effects of trade liberalization in the context of the WTO and globalization. Theoretical analyses often proceed with an application of the Stolper-Samuelson theorem.

hence minimize incentive-compatibility problems that arise due to temptations to renege when the pressures for protection become too high.¹⁰

The advent of the Asian financial crisis has also led states to reconsider the wisdom of the big-bang approach to capital market liberalization. While capital inflows are critical to attaining developmental goals, the danger of capital flight should lead states to court foreign direct investments, which tend to be long-term, as opposed to portfolio flows, which are more short-term in nature. Furthermore, unlike trade openness, the debate on the merits of full, rapid capital-account openness seems far from settled. The emerging consensus appears to favor a more gradualist approach, premised on the maturity of the country's level of financial-sector development (which may itself be endogenously influenced by openness to capital flows).

In addition, these should be accompanied by adequate attention to corporate governance efforts, both at a domestic and international level. At the domestic level, emerging economies no longer hold the (dubious) distinction of being the only patients with this problem. The recent high-profile failures of Enron and Worldcom underline the importance of vigilant monitoring of both bank lending and corporate financing in mature economies as well, through laws that maximize transparency and accountability.¹¹ At an international level, states can ensure that sovereign debt contracts include provisions that evenly spread systemic risks between creditors and debtor nations.¹² Together, these will ease the functioning of the market mechanism as a system of resource allocation, while delineating proper rules of the game to prevent the exploitation of market failures due to informational asymmetries and concentrated market power.

Finally, no discussion of modern economic policy can ignore the case for sustainable development, supported by the three pillars of economic, social and environmental dimensions. As social and environmental policy will be discussed in greater detail later, it is sufficient at this point to simply note that, for all the promise that economic prosperity offers, there cannot be an attitude of *ceteris paribus* towards these other essential aspects of the development equation.

In the post-Cold War, globalized world marked by gradually increasing international cooperation in major political affairs, there has been a decline in the importance of High Politics *vis-à-vis* Low

¹⁰ Fung & Staiger (1996) provide a game-theoretic analysis of this proposal for trade adjustment assistance.

¹¹ See Chinn & Woo (2003) for a discussion of domestic measures with regard to financial institution supervision and reform.

¹² See Eichengreen (1999) for a lucid discussion on this and other practical proposals for the reform of the international financial system.

Politics.¹³ Without discounting the possibility of an unexpected eruption in conflict – after all, the Great War was ushered in by an era of unprecedented peace¹⁴ – progressive economic and political integration should lower the probability of high-level conflict. There is an evolution of the international order towards equilibrium between a few Great Powers, major multinational corporations, and significant international organizations.¹⁵ This enhanced stability enjoys further positive feedback from the integration forces outlined above.

Of course, such a situation appears to be a remote fantasy in light of recent world events, not least increasing American unilateralism under the second Bush administration.¹⁶ This, however, belies the deeper, underlying trends. Even the most optimistic observers will agree that *Pax Americana* appears to be at its peak, and – like all major hegemonies before it – will face the inevitable decline. Moreover, even hard and soft American power seems to be limited in its scale and scope (Nye 2002). It is more likely that current world events are a transient phenomenon, and this will begin to transition into the multilateral international order – as outlined above – in the near future.

An acknowledgement of this by external security policy would involve a reduction in the absolute sizes of military forces towards a smaller, albeit more efficient professional force, equipped with advanced military technology. Such a policy stance fulfills the preventive role without an overemphasis of the zero-sum games inherent in military buildups. It also embraces an acceptance that, in the borderless world, the primary threats to domestic interests need not be embodied in other state actors; instead, they might appear in the form of elusive yet dangerous non-state actors. These may appear as terrorist groups operating on either militant or virtual levels, as drug smuggling cartels so pervasive in Columbia and Mexico, or as anarchists that seek to destroy the social fabric, as exemplified by the Black Bloc in the Battle of Seattle.¹⁷

¹³ High Politics is directed toward the study of orders that have emerged from the self-organization of the international system: political geography, the power-hierarchy and the military order. Low Politics deals with the regulation and steering of specific fields, which have been created by the self-organization of non-governmental actors as well as political decisions. These include areas such as economic projects, transport plans, and ecological programs.

¹⁴ As illustrated by the Keynes quote that opened section II.

¹⁵ Examples in each category are: the European Union, United States & China; McDonald's, Sony Corporation & Coca-Cola; and the International Monetary Fund, United Nations & World Bank.

¹⁶ Other signs of strains in the system of international cooperation include the erosion of the authority and immunity of the UN and the tensions in various hotspots such as the Korean peninsula, the Middle East, and the Balkans.

¹⁷ Such clandestine networks engage in what is now commonly referred to in the security literature as “netwars”, which are “an emerging mode of conflict (and crime) at societal levels, short of traditional military warfare, in which the protagonists

Therefore, internal security has to adjust in tandem with this paradigm shift. These clandestine operations are typically organized via nonlinear, sprawling multinational networks, as opposed to the more rigid hierarchical configuration employed by state actors. Furthermore, conflicts no longer hinge upon sheer military might, but instead are concentrated more on information operations and soft power. Nowhere were these two points made clearer than on September 11th. Despite the fact that the U.S. accounts for some forty percent of all defense spending in the world's 189 states, and its military might is superior to any other in the history of nation states, it was unable to prevent the tragedy of that day. In addition, it has been alleged that the inability to "connect the dots" is in no small part due to the information failures between the various arms of the hierarchically organized CIA, FBI, and other government agencies.¹⁸ In order to adapt, governmental bodies must therefore adopt network-centric organizational designs and strategies. This implies an interagency approach to counterterrorism efforts, and a willingness to forfeit old standard operating procedures in the identifying, monitoring, and disabling of such extremist groups.

A caveat here is important: The preservation of security should not come at the expense of either the excessive sacrifice of individual rights or the unnecessary discriminatory profiling of individuals on the basis of race, religion, or other socio-economic attributes. Also, states should be careful not to take this opportunity to enact draconian laws in the name of homeland security. This would clearly be counterproductive, as it would threaten other bases for state formation in the globalized world – such as that of just democratic representation and cultural affinity.¹⁹

A geopolitical truism in the 21st century is the continued rise of liberal democratic forces around the globe.²⁰ In some ways, this has been due to the mutually reinforcing nature of the two: The emphasis

use network forms of organization and related doctrines, strategies and technologies attuned to the information age” Arquilla & Ronfeldt (2001, p. 12). For more on the topic of netwars and their implications for domestic security, see Arquilla & Ronfeldt (2001).

¹⁸ A point repeatedly made in the volume edited by Talbott & Chanda (2002). The Guardian (2002) has recently summarized the main arguments.

¹⁹ In fact, there is a school of thought that believes that in the post-September 11th climate, ever so sensitive to issues of terrorism, globalization may itself be rolled back, as stricter capital mobility laws, heightened surveillance of foreigners, and an increasing xenophobia pervade nation states. Although easy to caricature, it is the author's belief that, whilst significant, the events of September 11th are but a hiccup, and not a death knell, to the forces of economic globalization.

²⁰ Depending on the source and methodology, estimates of the number of nations practicing liberal democracy in government ranges from about 60 to more than 90. A widely accepted estimate is that of Freedom House's annual *Freedom in the World*, which places the figure at 86 for the period 2001-2002 (Freedom House 2002). In contrast, there are about 47 Muslim-majority states, many of which recognize the Islamic *syrai'ah* to some degree. Despite these tenors, however, the

on individual freedoms and rights stimulates the free flow of information and commerce that is the lifeblood of globalization, and *vice versa*. It has been contended, however, that this short-run effect might be offset by the longer-run eclipse of the sovereignty of national institutions by supra-national bodies and allegiances, as well as through the rise of competing ideologies, such as Islamism (Plattner 2002). These factors aside, states can benefit by paying heed to the desire of their populace for increased levels of participatory government through dialogue, grassroots partnership, and critical feedback. These fulfill a twofold purpose: It not only creates an environment conducive to democratic ideals, it also promotes that sense of involvement and belonging, which in turn supports a healthy sense of nationalistic pride.²¹

This need not imply the wholesale importation of Western-style liberal democracy through a big bang approach. After all, the case of post-Suharto Indonesia vividly shows that when democracy is not brought aboard at an incremental pace, its introduction might well lead to social and political disintegration, a point forcefully made recently by Chua (2002). There is also evidence that certain economic and social objectives, when given precedence, might have the potential to accelerate development. This is the familiar case for “Asian values” so often trumpeted by the Newly Industrializing Economies of Southeast Asia.²²

Regardless of the advancement of democracy worldwide, however, the state will need to be aware of domestic special interest politics, and its impact on policy outcomes. The interaction of these coalitions with policymakers may lead to outcomes that are not necessarily optimal from the point of view of the average citizen. This suggests that the proper design of political institutions may temper these distortions (Besley & Case 2003).²³

Foreign policy is also subject to new constraints imposed by an increasingly borderless world. Earlier waves of globalization imposed the Washington consensus of economic liberalization; the present

weaknesses inherent in the democratic system of government are acknowledged. Still, given the constraints imposed by Arrow's Impossibility Theorem (see Mas-Collel *et al* 1995), there exists *no* political system that simultaneously fulfils the desirable features of universality, transitivity, egalitarianism, Pareto optimality, and independence of irrelevant alternatives.

²¹ The classic, but highly readable introduction to theories surrounding nationalism is Kedourie (1994). A modern exposition is attempted by Smith (1998).

²² There are, of course, skeptics in this regard. Krugman (1994, p. 78), in particular, has stated that “[i]f there is a secret to Asian growth, it is simply deferred gratification”, not Asian values.

²³ For example, Gourevitch (1986) finds that national responses to common international crises differ due to the heterogeneity of special interest groups, state structures, and party politics in each country. Grossman & Helpman (2001) is a more technical exposition of the recent research on special interest politics.

tide is baptizing the political and social realms. Since global governance is no longer concentrated in a hegemonic leadership arrangement,²⁴ states – especially those that are economically or physically smaller – can ensure that they are not marginalized by actively being involved in global initiatives, such as those pertaining to the environment, global health, or communications. Indeed, this has been the tact used by the smaller Nordic states such as Sweden, the Netherlands, and France. The Kyoto Protocol and the International AIDS Vaccine Initiative are testimonies of the involvement of these states in attempting to shape global governance. The WTO now has a Director-General from a small state (Thailand), and it seems like only a matter of time before the next Managing Director of the IMF will be from a small, emerging nation-state.

The explosion of anti-globalization protests and riots worldwide is perhaps the most dramatic manifestation of a sentiment that is increasingly winning converts: That globalization, in its present form, is unbalanced, unjust, and untenable. Most critics proceed along an itinerary that underscores social issues: The widening poverty gap, the erosion of conservative culture, and the demise of religion.²⁵ On the other side of the coin, another group fears the loss of jobs due to the influx of immigrants and the reawakening of fundamentalist culture and theology caused by the borderless world.²⁶ Which school of thought is right? Can these seeming socio-cultural contradictions – both allegedly due to globalization – be reconciled? More importantly, how would the state attune its role to these imbalances?

The intransigence of social structures is the root cause for the emergence of these incongruities. The result has been the ascendancy of social stratification, familial disintegration, religious backlash, and criminal and other forms of antisocial behavior. State policy fails – and will continue to fail – so long as states attempt to address these socio-cultural policy areas through traditional means of intervention (Offe 1996). Political sociology might suggest the need to resort to strong-state policies in order to ensure homogenization, conciliation, and integration. Alas, this is inherently inconsistent – even paradoxical – to the earlier prescriptions of increased democratic participation. Yet all is not lost. Policies founded on democratic principles need not be endemic to societies that seek harmony. The alternative is to acknowledge that, although complex societies are characterized by a somewhat

²⁴ This does not, of course, deny the strong influence the United States continues to exert on the world stage, but merely acknowledges the rise of other state players, such as those mentioned in note 14.

²⁵ Two anthologies that capture these ideas are Mander & Goldsmith (1997) and Yuen *et al* (2002).

²⁶ As put forward by Huntington (1996) and Pipes (2002).

high degree of internal tension, consensual institutions and values predispose themselves as the necessary conditions for an acquiescent peace.

One such institutional basis is the active pursuit of policies that do not yield to the siren call of communal or sectarian politics. Any discrimination – whether on the basis of ethnicity, language, or religion – often have an antithetical effect to their proposed objectives; such has been the case of the *bumiputra* policies of Malaysia as well as the affirmative action programs in the United States. Instead, racial and religious policy should display tolerance, respect, and mutual recognition. As a counterweight, citizenship and a sense of nationalistic pride may act as instruments that would bring about rapprochement between the two personal identities of religiosity and ethnicity, while at the same time balancing the competing demands of equality and identity.²⁷

Another key institution is that of the family. Although the recess of the traditional, rigidly defined family unit – with the concomitant liberation of women – is not a negative development *per se*, the rise of feminism and its worldwide spread through globalization forces have been accompanied by a corrosion of the foundations of the traditional family in society. This can potentially birth policies that contribute to familial breakdown, since they remove traditional dependencies of the different functionaries within the family. Tax and welfare policies that excessively distort the preferences of individuals with respect to family formation should be carefully considered before implementation. Concurrently, the state should not forget the primary role of mature social institutions as an advocate of family values; and hence should encourage the development of a vibrant civil society. Taken together, these could be the panacea for preventing the breakdown of families that has afflicted so many Western societies.²⁸

Education can also be a key contributor to the goal of reining in the untamed forces of globalization. Besides the economic benefits that ensue from education,²⁹ a good educational policy – one that is aware of the public-good nature of education and promotes continual learning at all levels – can

²⁷ Oommen (1997) makes this case convincingly in his book. He further rejects race or religion as persistent bases for state formation and existence; the former because de-territorialization and miscegenation undermine such efforts, the latter because de-territorialization and proselytization render it impossible. In addition, any support for such bases would endorse the propositions of racism (which is unacceptable) and/or religious nationalism/fundamentalism (which is undesirable).

²⁸ O'Connor, Orloff & Shaver (1999) examine how welfare policies have influenced social policy through the lens of liberalism and gender. Skocpol's (1992) celebrated work was the first to argue the case for the importance of interactions between social and political institutions in shaping social policy.

²⁹ As highlighted to earlier in the section on economic development, education enhances the value of human capital, which is a driver for growth.

cultivate societal stability and support the advancement of its principles and values. The public education system developed by the state of California³⁰ is a model that is in the forefront in this respect, and is one that bears emulation, after appropriate adaptation and contextualization. After all, the ability of the masterplan to equalize the diversity of races, religions, and social classes that constitute California is a hallmark of its success.

As a society develops, there is often the clamor for a welfare state. It is not unreasonable to expect the state to take a more proactive stance towards issues such as health insurance, poverty alleviation, and community welfare. There is a danger, however, in embarking on a utopian quest for these (rightly) noble ideals without due concession to the constraints imposed by two factors: Limited resources, and the unintentional perversion of individuals' incentives and perceptions. Hence, such policies should be tempered by economic prudence and common sense. It is entirely possible that the basic features of the welfare state may well survive into the borderless world, with appropriate accommodative reforms.³¹

The impetus to merge into a singular global culture is not imaginary. English is fast becoming the *lingua franca* of the world's nations (or at least amongst its elite), and cultural norms are meeting at a point where certain ethics and etiquette seem universally accepted. International cuisine finds its expression through Californian sushi, English curry, and Asian-style fish and chips, and there is an increasing fusion of fashions and dress. This carries some mileage even in matters of race and religion. Indigenous Christians in Korea, Ghana, and Fiji, Buddhists in America and Europe, and Muslims in England and France are hardly surprising,³² and inter-racial marriages are common in countries such as Brazil and Singapore. This cross-pollination that is a result of cultural globalization needs to be regarded as a positive, rather than negative, phenomenon – one that enhances the richness of life and contributes to diversity. Nonetheless, the genesis of a sense of global community

³⁰ The Californian public education system is a network that complements the existing private system through its provision of public education from kindergarten through to university. The system is the fruition of the California Masterplan for Education, and issues considered include staff and faculty matters, standards and assessment methods, physical facilities, to finance and governance. See the Joint Committee to Develop a Master Plan for Education (2002), as well as earlier masterplan documents.

³¹ Esping-Andersen (1996) provides the pessimistic view of the survival of the welfare state; Visser & Hemerijck (1997) adopt a more optimistic one.

³² For surveys of the spread of religion in each of the areas, see Jenkins (2002) (Christianity), Batchelor (1994) (Buddhism), and Metcalf (1996), respectively.

and the unfolding of a human solidarity are necessary conditions for the advent of a true global culture; sadly, or otherwise, both possibilities remain remote, at least in the near future.

Finally, in order to ensure the true long-run sustainability of all these policies, environmental policy should not treat nature's sink as essentially inexhaustible. Although it is all too easy to discount a sole state's impact on the larger global ecosystem, the sum total of the earth's ecological capacity is a very real upper bound.³³ A truly sustainable development policy is not excessively skewed towards growth at all costs. Instead, while a balanced environmental policy gives economic progress its due weight, it also understands the mitigating dynamism of proper environmental protection measures, ideally effected through incentive-compatible mechanisms.

IV. Conclusion: Whither a Role for the State?

In closing, we return to our original research questions: Is the world headed towards a clash of civilizations, or an end of history? Is the state still relevant in the globalized world? Undoubtedly, the traditional rationales for state formation and existence – such as domination, sovereignty, legitimacy, economy, and society – are rapidly being redefined in the borderless world. Although it is unclear whether international globalization will lead to greater international conflict or transnational peace – with a likely compromise somewhere between – the uncertainties surrounding the future path of globalization does not mitigate the importance of states adapting to situational changes.

As this essay has shown, a state that is unable to adapt itself to these altered circumstances will find itself increasingly marginalized and irrelevant in the globalized world. Through careful analysis that reverts to sound theoretical foundations, it has further shown that there *are* policy options that would allow the state to play a central role in the transition towards this globalized state of affairs.

Ultimately, the history of the 21st century largely remains to be written, and how much the state is a contributor to its economic, political, and cultural future – as well as that of the larger world – is primarily in its own hands. This pragmatic approach, to paraphrase Dewey, is for the state to “mediate between the stubborn past and insistent future”. Such, then, is the deeper role of sovereign states in an increasingly borderless world.

³³ The majority of the scientific community believes that there is a “discernible human influence on [the] global climate”, and is in support of a significant effort to balance environmental policy with hitherto unchecked economic growth (see Watson *et al* 2001). For a contrarian view, see Lomborg (2001).

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