Embedding the Global in the National: Implications for the Role of the State

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One role of the state vis-à-vis today’s global economy has been to negotiate the intersection of national law and foreign actors—whether firms, markets, or supranational organizations. This condition makes the current phase distinctive. We have, on the one hand, an enormously elaborate body of law that secures the exclusive territoriality of national states to an extent not before seen and, on the other, the considerable institutionalizing of the “rights” of non-national firms, cross-border transactions, and supranational organizations. The conditions bring with them an almost necessary engagement of national states in the process of globalization.

We generally use terms such as deregulation, financial and trade liberalization, and privatization to describe the outcome of this negotiation. Unfortunately, however, such terms only capture the withdrawal of the state from regulating its economy. They do not register all the ways in which the state participates in setting up the new frameworks that encourage globalization; nor do they capture the associated transformations inside the state.

Some scholarship treats the relationship between national states and the world economy in a way that transcends the proposition that the state simply withdraws from the economic sphere. The world-system literature has made major contributions toward developing analytic categories that allow us to understand the operation of international dynamics inside the national territories of less developed countries. An emerging body of scholarship shows that, to a large extent, global processes materialize in national territories, including those of the highly developed countries. I have long argued that many transactions
that are essential to the global economy do not cross borders, or they do not do so the way that investment and trade do, but are located inside national economies. Further, I have tried to show how even the most digitalized global financial market is grounded in a set of very material resources and spaces largely embedded in national territories.

Less attention, and the concern here, has gone to the formation of an emerging institutional framework to govern the global economy and the inevitable implications this has for the exclusive authority of the modern national state over its territory—that is, its exclusive territoriality. A new set of intermediary strategic agents contributes to the management and coordination of the global economy. They are largely, though not exclusively, private. And they have absorbed some of the international functions carried out by states in the recent past, as was the case, for instance, with the predominantly protectionist regimes of the post–World War II decades through which governments governed international trade. The role of these strategic agents is dramatically illustrated by a recent case involving China. When the Chinese government in 1996 issued a 100-year bond to be sold not in Shanghai but mostly in New York, it could bypass Washington and deal directly with one of the leading financial-services firms, J. P. Morgan. Similar situations have occurred repeatedly in various other countries.

Private firms in international finance, accounting and law, the new private standards for international accounting and financial reporting, credit rating agencies, international commercial arbitrations, and supranational organizations such as the WTO all play strategic non-government-centered governance functions. They do so, however, largely within national states and, as a result, inevitably become agents or carriers of the legal and accounting rules of that state. This signals the possibility of a whole series of engagements with various aspects of national states and various outcomes that depend on the specifics of each national state.

First, I explore one way of theorizing this necessary engagement between national states and global actors. And, second, I will focus on the spaces of economic globalization as a way of capturing their relation to national territories.
II. Constructing an Analytic Frontier Zone

The encounter of a global actor—firm or market—with one or another instantiation of the national state can be thought of as a new frontier zone. It is not merely a dividing line between the national economy and the global economy. It is a zone of politico-economic interactions that produces new institutional forms and alters some of the old ones. Nor is it just a matter of reducing regulations or the role of government generally. For instance, in many countries, the necessity for autonomous central banks in the current global economic system has required a thickening of regulations in order to delink central banks from the influence of the executive branch of government.

This zone of interaction is highly charged, and potentially the outcomes of this interaction can produce epochal change. Why is it highly charged and significant? Because it is not simply the push by global firms and markets that is shaping the dynamics of interaction, although this is implied in much of the literature on the declining significance of the national state under globalization. States are also shaping the dynamics of interaction and are doing so not merely through resistance. At the same time, they are reconfigured. This reconfiguration is shaped both by trends toward standardization (as is the growing convergence in the role of central banks) and national particularities.

The tension between the weight of national specificity and the weight of the new global rules of the game is well illustrated by some aspects of the current Asian financial crisis. We are seeing different responses by the Asian countries involved in IMF “rescue packages,” signaling the weight of specific domestic institutional arrangements and leadership. At the same time, the emergent consensus in the community of states to further globalization has created a set of specific obligations on participating states, no matter how reluctant some of them might be.

Beyond the inadequacy of simply accepting the general proposition of a declining significance of the state, there is also the problematic acceptance of a simple quantitative measure of globalization. Simply to focus on the often minimal share of foreign inputs in national economies overlooks some of the salient features of the current phase of the global economy. In most developed countries, the share of foreign in total investment, the share of international in total trade, and the share of foreign in total stock market value are all very small. How-
ever, to infer from this that economic globalization is not really a significant issue misses a crucial feature: most global processes materialize in national territories and do so largely through national institutional arrangements, from legislative acts to firms, and, therefore, are not necessarily counted as “foreign.”

Conversely, for that same reason, we cannot simply assume that, because a transaction takes place in national territory and in a national institutional setting, it is ipso facto national. In my reading, the overlapping of global actors and national institutions is far more ambiguous. The case of the central banks today also illustrates another key aspect in the process whereby national economies accommodate a global economic system. Central banks are institutionalizing in their national economies some of the criteria that are key to IMF conditionality. This signals that “national” institutions can become home to some of the operational rules of the global economic system.

Here I want to focus on some of the actual territorial and nonterritorial processes through which the global economy is constituted in order to clarify the interactions between national states and global actors and the ways some of the dynamics that constitute the global economy operate through national institutions and in national territories. Analytically, the discussion is centered in this notion of a frontier zone where many different outcomes are possible.

In my judgment, one of the key processes today is the relocation of national public governance functions to transnational private arenas and, conversely, the development inside national states—through legislative acts, court rulings, executive orders—of the mechanisms necessary to accommodate the rights of global capital in what are still national territories under the exclusive control of their states.

One overall effect is what I call an incipient denationalizing of several highly specialized national institutional orders—the partial replacement of national legal and regulatory frameworks with denationalized ones. One concrete version of this may well be the shift away from what are ultimately still Keynesian state agendas toward the needs of global capital to ensure its “rights” inside national territories. This is one way in which the state matters under conditions of globalization—that is, in its capacity as an administrative and technical apparatus that can be used to govern the operations of national as well as non-national economic actors and institutions. If some of the instruments necessary to accommodate a global economic system are implemented inside the national state through a denationalizing of
select institutional realms, one could argue that what we could call Westphalian and international legal sovereignty may well be undergoing substantive transformations, even though formally or de jure they may appear unchanged and unchallenged by globalization.

III. Subnational Spaces of the Global Economy

We can begin to address these questions by examining how some of the major processes of economic globalization get installed in national institutional and geographic spaces.

Each phase in the long history of the world economy raises specific questions about the particular conditions that made it possible. A key property of the current phase is the ascendance of information technologies, the associated increase in the mobility and liquidity of capital, and the resulting decline in the capacity of national states to regulate key sectors of their economies. This is well illustrated by the case of the leading information industries, finance, and the advanced corporate services; these industries tend to have a space economy that is transnational and to have outputs that are hypermobile, moving instantaneously around the globe.

The master images in the currently dominant account about economic globalization emphasize precisely these aspects: hypermobility, global communications, and the neutralization of place and distance. There is a tendency in that account to take the existence of a global economic system as a given, a function of the power of transnational corporations and global communications. But the capabilities need to be produced for global operation, coordination, and control contained in the new information technologies and in the power of transnational corporations. By focusing on the production of these capabilities, we add a neglected dimension to the familiar issue of the power of large corporations and the new technologies. The emphasis shifts to the practices that constitute what we call economic globalization and global control: the work of producing and reproducing the organization and management of a global production system and a global marketplace for finance, both under conditions of economic concentration.

A focus on practices draws the categories of place and production process into the analysis of economic globalization. These two categories are easily overlooked in accounts centered on the hypermobility of capital and the power of transnationals. Developing categories such as place and production process does not negate the centrality of

Saskia Sassen
hypermobility and power. Rather, it emphasizes that many of the resources necessary for global economic activities are not hypermobile and are, indeed, deeply embedded in place, notably global cities and export-processing zones.

Further, emphasizing the fact that global processes are at least partly embedded in national territories introduces new variables in current conceptions about economic globalization and the shrinking regulatory role of the state. That is to say, the space economy for major new transnational economic processes diverges in significant ways from the duality global/national presupposed in much analysis of the global economy. The duality, national versus global, suggests two mutually exclusive spaces — where one begins the other ends. But I contend that this is fundamentally incorrect, that the global materializes by necessity in specific places and institutional arrangements, a good number of which, if not most, are located in national territories.

Recapturing the geography of places involved in globalization allows us to recapture people, workers, communities, and more specifically, the many different work cultures besides the corporate culture that are involved in the work of globalization.

**IV. The Role of Place in a Global Economy**

Globalization can be deconstructed in terms of the strategic sites where global processes materialize and the linkages that bind them. Among these sites are export-processing zones, offshore banking centers, and on a far more complex level, global cities. This produces a specific geography of globalization and underlines the extent to which it is not a planetary event encompassing all the world. It is, furthermore, a geography that has changed over the last few centuries and over the last few decades — and, most recently, has come to include electronic space.

This geography of globalization contains both a dynamic of dispersal and of centralization, a condition that is only now beginning to receive recognition. The massive trend toward the worldwide spatial dispersal of economic activities which we associate with globalization has contributed to a demand for new forms of territorial centralization of top-level management and control operations. The new possibilities for spatial dispersal made possible by telematics actually contributes to an expansion of central functions if this dispersal is to take place under the continuing concentration in control, ownership, and profit.
appropriation that characterizes the current economic system. This dynamic is also evident for firms operating at the regional or national level.

National and global markets, as well as globally integrated organizations, require central places where the work of globalization gets done. Further, information industries require a vast physical infrastructure containing strategic nodes with hyperconcentration of facilities. We need to distinguish between the capacity for global transmission/communication and the material conditions that make this possible. Finally, even the most advanced information industries have a production process that is at least partly place-bound because it requires a combination of resources even when the outputs are hypermobile.

A central concern in my work has been to look at cities as production sites for the leading information industries of our time and to recover the infrastructure of activities, firms, and jobs that is necessary to run the advanced corporate economy. These industries are typically conceptualized in terms of the hypermobility of their outputs and the high levels of expertise of their professionals rather than in terms of the production process involved and the requisite infrastructure of facilities and nonexpert jobs that are also part of these industries.

Viewed this way, these processes of globalization take place, at least partly, in national territories and hence contain, explicitly or implicitly, a participation of select components of national states. There are two major implications here for the question of territoriality and sovereignty in the context of a global economy. First, when there is geographic dispersal of factories, offices, and service outlets in an integrated corporate system (particularly one with centralized top-level control), there is also a growth in central functions. In other words, the more globalized firms become, the more their central functions grow—in importance, in complexity, in number of transactions. Of importance to the analysis here is the dynamic that connects the dispersal of economic activities with the ongoing weight and often growth of central functions. In terms of territoriality and globalization, this means that an interpretation of the impact of globalization as creating a space economy that extends beyond the regulatory capacity of a single state is only half the story; the other half is that these central functions are disproportionately concentrated in major cities, and that means in the national territories.
By “central functions” I mean not only top-level headquarters but also all the top-level financial, legal, accounting, managerial, executive, and planning functions necessary to run a corporate organization operating in more than one country and, increasingly, in several countries. These central functions are partly embedded in headquarters but also, in good part, in what has been called the corporate services complex—that is, the network of financial, legal, accounting, advertising, and other corporate services firms that handle the complexities of operating in more than one national legal system, national accounting system, advertising culture, and so on and do so under conditions of rapid innovations in all these fields. These agglomerations of top-level firms producing central functions for the management and coordination of global economic systems are disproportionately concentrated in the highly developed countries—particularly, though not exclusively, in the kinds of cities I call “global cities.” But similar trends are becoming evident in major cities such as São Paulo, Buenos Aires, Seoul, Bangkok, etc. This concentration of functions represents a strategic factor in the organization of the global economy, and it is situated in national territories, not somewhere “out there” in some putative global economy that exists beyond national territories.

Another instance today of this negotiation between a transnational process or dynamic and a national territory is that of the global financial markets. The orders of magnitude in these transactions have risen sharply, as illustrated by the U.S. $75 trillion in turnover in the global capital market (as estimated by the *Economist*), a major component of the global economy. These transactions are partly embedded in telecommunications systems that make possible the instantaneous transmission of money/information around the globe. This feature has attracted considerable attention. But the other half of the story is the extent to which the global financial markets are located in particular cities in the highly developed countries; indeed, the degrees of concentration are unexpectedly high. The topography of activities in many of the global digitalized industries, such as finance, actually weaves in and out of digital space; and when it moves out of digital space and hits the ground, it does so in massive concentrations of very material resources, from infrastructure to buildings.

Operating a worldwide network of factories, offices, and service outlets and implementing global financial markets require major and minor innovations in national legal systems and the creation of whole new frameworks outside national systems. This is, in my opinion, one
of the components of the new geography of power confronting and involving national states. Some of these legal innovations entail specific forms of interaction with the state or, more specifically, with the sovereignty of the state. Such innovations and changes are often categorized as “deregulation” and taken as something of a given. In much social science, deregulation is another name for the declining significance of the state. There is, it seems to me, a more specific process contained in these legal changes, one that, along with the reconfiguration of space previously discussed, may signal a more fundamental transformation in the matter of sovereignty.

For instance, over the past twenty years, international commercial arbitration has been transformed and institutionalized as the leading contractual method for resolving transnational commercial disputes.¹⁰ According to Dezalay and Garth, it is a delocalized and decentralized market for the administration of international commercial disputes, connected by more or less powerful institutions and individuals who are both competitive and complementary. Its purpose is to bypass national court systems.¹¹ A second instance of a private regulatory system is represented by debt security or bond rating agencies, which play an increasingly important role in the global economy.¹² Ten years ago Moody’s and Standard and Poor had no analysts outside the United States; by 1993, each had about 100 in Europe, Japan, and Australia.¹³

These and other such transnational institutions and regimes raise questions about the relation between state sovereignty and the governance of global economic processes. International commercial arbitration is basically a private justice system and credit rating agencies are private gatekeeping systems. Along with other such institutions, they have emerged as important governance mechanisms whose authority is not centered in the state. They serve to maintain order at the top. Of particular concern here is how the newly formed World Trade Organization negotiates the growth of these private regimes and the attempt to form supranational regimes still centered on states and the interstate system. As Rosenau has noted, precisely because so many processes are transnational, governments increasingly are not competent to address some of the major issues confronting our societies; this is not the end of sovereignty, but rather an alteration in the “exclusivity and scope” of the competence of governments.¹⁴
Thus, while central, the role of the state in producing the legal encasements for economic activity is no longer what it was in earlier periods.

V. Conclusion

The strategic spaces where global processes are embedded are often national; the mechanisms through which new legal forms, necessary for globalization, are implemented are often part of national state institutions; and the infrastructure that makes possible the hypermobility of financial capital at the global scale is embedded in various national territories. This partial embedding of global dynamics in national territories in a context of exclusive territorial authority by the national state signals a necessary engagement with the national state. The national state could not be a mere bystander or passive victim. It had to participate through one or another of its instantiations in setting up the new legal frameworks and in legitimating the new norms. In this process, it weakened many of its authorities, especially those linked to the social fund, but it also gained new powers. Thinking about globalization and the national state along these lines resists the simple duality of the national and the global and the notion that economic globalization is basically a set of macro-level cross-border processes.

One way of conceptualizing the multiple negotiations between the national state and the implementation of a global economic system is as a process of incipient denationalizing of select specialized national institutional orders. This process of denationalization cannot be reduced to a geographic conception, which the generals who fought the wars for nationalizing territory in earlier centuries attempted to do. This is a denationalizing of specific institutional arenas: the financial sectors in Manhattan and the City of London are the equivalent of free-trade zones. But Manhattan as a geographic entity, with all its layers of activity and functions and regulations, is not a free-trade zone. What becomes denationalized is a highly specialized functional or institutional realm, with strong tendencies toward locational concentration in places such as Manhattan and London’s City. Some of what we code as national because it takes place in national territory has become the global. And some of what we code as global is contingent on the national state as an administrative capacity and as a source of legitimacy.
Notes

1. This paper is part of a larger five-year project on governance and accountability in the global economy. The first phase of the larger project was partly published as the 1995 Leonard Hastings Schoff Memorial Lectures: *Losing Control? Sovereignty in an Age of Globalization* (Columbia University Press, 1996). I want to thank the Schoff Memorial Fund for its support and Columbia University Press for allowing me to use portions of that book.

2. Elsewhere, I have developed the broader concept of analytic borderlands (see Sassen 1996b).

3. Compare with Robertson’s notion of the world as a single place, or the “global human condition.” I contend that globalization is also a process that produces differentiation, except that the alignment of differences is unlike that associated with such differentiating notions as national character, national culture, national society. For example, the corporate world today has a global geography, but it isn’t everywhere in the world: in fact, it has highly defined and structured spaces. Furthermore, it is sharply differentiated from noncorporate segments in the economies of the particular locations (a city such as New York) or countries where it operates. There is homogenization along certain lines that cross national boundaries and sharp differentiation inside these boundaries. We can also see this in the geography of certain built forms—from the bungalow (King 1984) to the corporate complex (Sassen 1991) to the landscapes of American theme parks (Zukin 1991). These various built forms are both global yet highly localized in certain places. In this sense, globalized forms and processes tend to have a distinct geography.

4. We should recognize the specific historical conditions for different conceptions of the international or the global. There is a tendency to see the internationalization of the economy as a process operating at the center, embedded in the power of the multinational corporations today and colonial enterprises in the past. One could note that the economies of many peripheral countries are thoroughly internationalized because of high levels of foreign investments in all economic sectors and heavy dependence on world markets for “hard” currency. Center countries have strategic concentrations of firms and markets that operate globally, the capability for global control and coordination, and power. This form of the international is very different from what we find in peripheral countries.

5. More conceptually, we can ask whether an economic system with strong tendencies toward such concentration can have a space economy that lacks points of physical agglomeration. That is to say, does power—in this case, economic power—have spatial correlates?

6. I see the producer services, and most especially finance and advanced corporate services, as industries producing the organizational commodities necessary to implement and manage global economic systems (Sassen 1991, chapters 2–5). Producer services are intermediate outputs—that is, services bought by firms. They cover financial, legal, and general management matters, innovation, development, design, administration, personnel, production technology, maintenance, transport, communications, wholesale distribution, advertising, cleaning services for firms, security, and storage. Central components of the producer-services category are a range of industries with mixed business and consumer markets; they are insurance, banking, financial services, real estate, legal services,
accounting, and professional associations. (For more detailed discussions, see Noyelle and Dutka 1988; Daniels 1985.)

7. Methodologically speaking, this is one way of addressing the question of the unit of analysis in studies of contemporary economic processes. “National economy” is a problematic category when there are high levels of internationalization. And “world economy” is a problematic category because of the impossibility of engaging in detailed empirical study at that scale. Highly internationalized cities such as New York or London offer the possibility of examining globalization processes in great detail, within a bounded setting, and with all their multiple, often contradictory aspects. It would begin to address some of the questions raised by King about the need of a differentiated notion of culture, but also of the international and the global (King 1990).

8. I have elaborated these issues in Sassen 1991. This process of corporate integration should not be confused with vertical integration as conventionally defined. See also Gerffio on commodity chains and Porter’s value-added chains, two constructs that also illustrate the difference between corporate integration at a world scale and vertical integration as conventionally defined.

9. Such services have become so specialized and complex that headquarters increasingly buy them from specialized firms rather than producing them in-house. It is not so much headquarters as the specialized network of service firms that tends to locational concentration in major cities (Sassen 1991; 1994).

10. Today, international business contracts in a broad range of activities typically call for arbitration in the event of a dispute arising from the contractual arrangement (Dezalay and Garth 1995). The main reason given for this choice is that it allows each party to avoid being forced to submit to the courts of the other. Also important is the secrecy of the process. Such arbitration can be “institutional” and follow the rules of institutions such as the International Chamber of Commerce in Paris, the American Arbitration Association, the London Court of International Commercial Arbitration, or many others. Or it can be ad hoc, often following the rules of the U.N. Commission on International Trade Law (UNCITRAL). The arbitrators — usually three — are private individuals selected by the parties; they act as private judges, holding hearings and issuing judgments.

11. See also Salacuse 1991.

12. The two agencies that dominate the market in ratings, with listings of U.S. $3 trillion each, are Moody’s Investors Service, usually referred to as Moody’s, and Standard & Poor’s Ratings Group, usually referred to as Standard & Poor.

13. Sinclair 1994

14. A wider systemic process here needs to be distinguished from the effects of globalization: the worldwide and apparently growing distrust of governments and bureaucracies. Shapiro (1995) finds that this has contributed to the emergence of certain commonalities in law, notably the growing importance of constitutional individual rights that protect the individual from the state and other organizations. The particular hallmark of American constitutionalism is constitutional judicial review, which now has also emerged endogenously in Germany and Italy and, to some extent, even in France (where there now is an active constitutional court and a constitutional bill of rights). The Court of Justice of the EU has evolved into a constitutional court with human-rights jurisdiction (which entailed that constitutions and rights had to come about in Europe).
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