Is the Nation-state Declining in the Face of Globalisation?

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ABSTRACT:
The impacts that globalisation has had on the nation-state has been one of the most important concerns of our time in terms of not only academic discussions but also public debates. Accordingly, there has a bourgeoning body of literature in social sciences emphasising on various aspects of the correlation between globalisation and the nation-state, employing different theoretical and methodological approaches. Some scholars put forth the argument that under the pressure of the forces of globalisation the sovereignty of the nation-state has declined while the others maintain that the nation-state has not affected by the globalisation. This paper examines the impact that globalisation has had on the nation-state, reviewing the ways the nation-sate tackle both direct and indirect challenges posed by globalisation. It concludes that the nation-state as a rational actor in the international system has been very flexible to minimize the negative impacts of globalisation and reap its benefits, noting that the nation-state has not declined in the face of globalisation.

KEYWORDS:
nation-sate, globalisation, international system, transnational, economic activity, hyperglobalist, sovereignty.

The past two decades has witnessed an explosion of interest in the impact of globalisation on the nation-state and impressively, contrasting viewpoints have been put forward. This paper argues that the nation-state has been changing but not declining in the face of globalisation. Hence, it will begin by looking at the definitions of the nation-state and globalisation. Next, while arguing that the alleged erosion of the nation-state encapsulated by the hyperglobalists is too simplistic, the article highlights research that brings the role of the nation-state into question. It then examines three major changes of the nation-state under the pressure of globalisation: transforming into a flexible economic regulator; seeking to participate in the regional cooperation mechanisms; and fostering the intervention authority. Furthermore, it argues that the extent of these changes differs in the states' strength. Last, the paper concludes that globalisation has not led to the declining authority of the nation-state. Instead, the nation-state has transformed itself to adapt to the globalised world.

Definitions: Nation-State and Globalisation

There has been an ambiguity in the popular knowledge of "nation", "state" and "nation-state". It is mainly because that the two words "nation" and "state" are sometimes used interchangeably and the word "nation-state" refers to "various meanings and associations" (Opello et al., 2004: 2). Thus a clear understanding of such definitions is significant at the outset of tracing the impacts of globalisation on the nation-state.

A nation is identified as "a reasonably large group of people" which has a common culture and share such cultural traits as religion, language, political institutions, values, and historical experience (Glassner, 1993: 35-40). "They tend to identify with one another, feel closer to one another than to outsiders, and to believe that they belong together" (ibid. 35-40). They are apparently different from others who do not have the same culture as theirs (ibid. 35-40). A state is used to refer to a part of geographical space within which the resident population is ruled by an authority structure. The sovereignty of states over their territory is externally recognised. It is noteworthy that a nation is "an imagined community" (Dicken, 2007: 174). While a state is identified with a well-recognised territory, a nation may be not.

A nation-state is used to refer to a circumstance where state and nation coincide: "A nation-state is a nation with a state wrapped around it. That is, it is a nation with its own state, a state in which there is no significant group that is not part of the nation." (Glassner, 1993: 35-40). According to this definition, the prominent feature of the nation-state is sovereignty: the nation-state has an overall control over its own territory and population. In other words, the nation-state has an absolute right to decide autonomously the fate of its nation and it is able to act autonomously in the international system.

Like "nation-state", globalisation – "a slippery term" – has caused much confusion to many people. It denotes different meanings to different people. Susan Strange observes that globalisation is "a term used by a lot of woolly thinkers who lump together all sorts of superficially converging trends" (Strange, 1995: 293). Yet, there is general agreement that globalisation involves the breaking of national borders and the compressing of distance. Another way of explaining this is that there is a single world. Freidman (1997) describes: "the integration of trade, finance, and information that is creating a single global market and culture" (Freidman, 1997). Others emphasise more precisely on the development of the relationships that go across national borders or stretch beyond the nation-state. Held (1999) defines globalisation to be 'a process/ or set of processes that embodies a transformation in the spatial organization of social relations and transactions, generating trans-continental or interregional flows and network of activity, interaction and power' (Held et al., 1999). McGrew (2005) considers globalisation as "a historical process involving a fundamental shift or transformation in the spatial scale of human social organization that links distant communities and expand the reach of power relations across regions and continents" (McGrew, 2005: 14). Indeed, reference is often specifically made to the transnational practices and processes in which "territorial places, territorial distances and territorial borders lose some of their previously overriding influence" (ibid. 14).

Contrasting Views on the Impact of Globalisation on the Nation-State

The impact of globalisation on the nation-state is a source of endless debate in the field of political economy. The advocates of hyperglobalist school hold that the world is experiencing a new phenomenon – globalisation which spurs the "the emergence of an integrated global economy with the emphasis upon open markets and the breaking down of national borders" (Hopper, 2006: 2-4). Such a borderless world leads to economic dependence, decrease in political democracy, and cultural homogenization. In the viewpoints of the hyperglobalists, "economic integration of national societies means that domestic groups, and even whole societies, are losing control over their own destinies to powerful outside economic and technology forces" (Gilpin, 2002: 314). Globalisation is far from being the era of the nation-state since many globalising processes have undermined it. They, therefore, argue for the withering away of the nation-state[1] or its demise[2].

In their arguments, hyperglobalists underscore the increase in international trade, the mobility of capital, finance and the flow of foreign direct investment (FDI), the significance of transnational corporations (TNCs). These dynamics have been seen to exert damaging impacts on the nation-state: "The nation state has become an unnatural, even dysfunctional, unit for organizing human activity and managing economic endeavour in a borderless world. It presents no genuine, shared community of economic interest; it defines no meaningful flows of economic activity" (Ohamae, 1990: 24).

Specifically, the hyperglobalists argue that "footloose modern businesses" (Baylis and Smith: 291) are able to leave a country without any cost if its government does not create a favourable investment environment which is characterised by liberalisation. This means that the nation-state is pressed to decrease taxes and cut public expenditure. In "the race to the bottom", the nation-state loses its sovereignty and autonomy to control the economy. Moreover, the nation-state is no longer the provider of traditional public goods (Cerny, 1995: 595-625). Thus, Albrow (1996) concludes that "the nation-state loses control of the forces it previously contained." Similarly, Castells (1997) asserts that "globalization, in its different dimensions, undermines the autonomy and decision-making power of the nation-state."

By contrast, advocates of the central role of the state express their unshaken belief in the ability of the nation-state to tame globalisation. According to them, it is not difficult to see potential weaknesses in the hyperglobalist arguments and the impacts of globalisation on the nation-state have been overstated. In his work entitled *"Why Globalization Works?"* Martin Wolf (2005) criticised the hyperglobalist argument concerning the inability of the nation-state to raise taxes, which in turn leads to their erosion. He then gives evidence on the ability of the nation-state to pursue their tax policies. For example, the statistics in Table 1 show that there is an increase in the general government expenditures (as share of GDP, percent) during the 20th century. None of the countries in the table has a lower expenditure in 1996 than 1913. Along with the rise in the government expenditure is the heightened government tax revenue as illustrated in Table 2. This implies "the enormous – and unrepeatable – growth of the functions of the state" (Wolf, 2005: 252).

TABLE 1. General government expenditure (as share of GDP, percent)

Country	1913	1937	1960	1980	1996
Australia	16.5	14.8	21.2	34.1	35.9
Austria	17.0	20.6	35.7	48.1	51.6
Canada	n.a.	25.0	28.6	38.8	44.7
France	17.0	29.0	34.6	46.1	55.0
Germany	14.8	34.1	32.4	47.9	49.1
Italy	17.1	31.1	30.1	42.1	52.7
Ireland	n.a.	25.5	28.0	48.9	42.0
Japan	8.3	25.4	17.5	32.0	35.9
Norway	9.3	11.8	29.9	43.8	49.2
Sweden	10.4	16.5	31.0	60.1	64.2
Switzerland	14.0	24.1	17.2	32.8	39.4
UK	12.7	30.0	32.2	43.0	43.0
US	7.5	19.7	27.0	31.4	32.4
Simple average	13.1	23.8	28.0	41.9	45.0

* United Germany from 1991. Source: Wolf (2005: 252, Table 12.1)

TABLE 2. General government tax revenue (as share of GDP, percent)

Country	1965	1980	1990	2000	Increase 1965-2000
US	24.7	27.0	26.7	29.6	4.9
Japan	18.3	25.1	30.1	27.1	8.8
Germany*	31.6	37.5	35.7	37.9	6.3
France	34.5	40.6	43.0	45.3	10.8
Italy	25.5	30.4	38.9	42.0	16.5
UK	30.4	35.2	36.8	37.4	7.0
Canada	25.6	30.7	35.9	35.8	10.2
Denmark	29.9	43.9	47.1	48.8	18.9
Sweden	35.0	47.5	53.6	54.2	19.2
Australia	21.9	27.4	29.3	31.5	9.6
EU 15 (unweighted average)	27.9	36.0	39.5	41.6	13.7
Unweighted average of OECD countries	25.8	32.1	35.1	37.4	11.6

* United Germany from 1991. Source: Wolf (2005: 252, Table 12.2)

Also, he demonstrates that the taxation of relatively mobile capital and personal income is on the rise. It can be seen in Table 3 that the taxation of corporate income, as a share of GDP (over the OECD area as a whole) increased from 2.2 percent of GDP in 1965 to 2.4 percent in 1980, 2.7 percent in 1990 and 3.6 percent in 2000 (ibid. 255). The ratio of corporate tax revenue to GDP greatly grows in most of the countries in the table.

TABLE 3. Tax on corporate income (as share of GDP, percent)

Country	**1965**	**1980**	**1990**	**2000**	**Increase 1965-2000**
US	4.0	2.9	2.1	2.5	-1.5
Japan	4.1	5.5	6.5	3.6	-0.6
Germany*	2.5	2.0	1.7	1.8	-0.7
France	1.8	2.1	2.3	3.2	1.4
Italy	1.8	2.4	3.9	3.2	1.4
UK	1.3	2.9	4.1	3.7	2.4
Canada	3.8	3.6	2.5	4.0	0.2
Denmark	1.4	1.4	1.5	2.4	1.0
Sweden	2.1	1.2	1.7	4.1	2.0
Australia	3.6	3.3	4.1	6.5	2.9
EU 15 (unweighted average)	1.9	2.1	2.6	3.8	1.9
Unweighted average of OECD countries	2.2	2.4	2.7	3.6	1.4

* United Germany from 1991. Source: Wolf (2005: 252, Table 12.3)

In addition, personal income tax comes mostly from the relatively high earners who are viewed as "the most mobile part of a high-income country's labour force" (ibid. 256). Therefore, a decrease in the ability to tax income means that personal mobility has limited a state's ability to raise taxes. However, Wolf (2005) shows the data of tax on personal income which is against this proposition. It is seen in Table 4 that most of the countries listed enjoy a sharp increase in personal income tax from 1965 to 2000. Among those, Denmark, Canada, Italy and the United States are significant examples.

TABLE 4. Tax on corporate income (as share of GDP, percent)

Country	1965	1980	1990	2000	Increase 1965-2000
US	7.8	10.5	10.1	12.6	4.8
Japan	4.0	6.1	8.1	5.6	1.6
Germany*	8.2	11.1	9.8	9.6	1.4
France	3.7	4.7	5.1	8.2	4.5
Italy	2.8	7.0	10.2	10.8	8.0
UK	10.1	10.3	10.0	10.9	0.8
Canada	5.8	10.5	14.7	13.2	7.4
Denmark	12.4	22.9	24.8	25.7	13.3
Sweden	17.1	19.5	20.6	19.3	2.2
Australia	7.5	12.0	12.6	11.6	4.1
EU 15 (unweighted average)	7.2	11.1	11.1	10.9	3.7
Unweighted average of OECD countries	7.0	10.5	10.7	10.0	3.0

* United Germany from 1991. Source: Wolf (2005: 252, Table 12.4)

His conclusion is that "there is no evidence of the disappearance of a well-managed state's ability to tax and spend at levels it chooses. Nor is there any good reason to expect it. The notion that countries compete directly with one another, as companies do, is nonsense. It is nonsense because the most important source of both wealth and comparative advantage, namely people, is highly immobile" (ibid. 277).

Also, Hay (2007) has a very profound analysis on the globalisation's impact on the nation-state. He theoretically and empirically tests the core assumptions of hyper-globalisation thesis: (i) capital investment flows to places that provide the highest net return on that investment, (ii) the markets are totally integrated over the world, therefore, national economies need to be internationally competitive, (iii) capital flight is simple and costless, (iv) capital will choose the flexible markets and economies with the lowest corporate taxation, and (v) "the welfare state is, for business, merely a drain on profits" (Hay, 2007: 242). According to Hay, these assumptions are "problematic" and "difficult to reconcile with the empirical evidence" (ibid. 240-241). Then, by carefully looking at the dependent variables (state retrenchment, convergence or dual convergence) and independent variable (globalization), he demonstrates that "the evidence… would strongly suggest that the constraints imposed upon domestic political economy by heightened levels of economic integration (with respect to trade, foreign direct investment, or finance) have been grossly exaggerated" (ibid. 245-259).

The Nation-State in the Globalised World: Changing, not Declining

It is argued in this section that globalisation has affected the development of the nation-state. It is noteworthy that the nation-state has not declined in importance under the pressures of globalisation. Instead, the nation-state has become a flexible economic regulator, sought to participate in the international organisations and regional cooperation mechanisms, and intensified its intervention authority.

The very first impact of globalisation is that it has transformed the nation-state into a flexible economic regulator. When international economic integration has proved to be a dominant trend in the political economy, nation-states worldwide have opened up their economies to reap globalisation benefits. When these nation-states deeply integrate into the world market, it means that they have transformed themselves into flexible economic regulators: they have to weigh costs and benefits of economic liberalisation. Though trade and financial openness certainly result in "changes in processes of national policymaking" (Mosley, 2007: 121), nation-states still preserve for themselves the authority to manage globalisation forces.

To illustrate, during the process of opening their economies to the word, the nation-state has to deal with challenges posed by transnational corporations (TNCs). In the conventional wisdom, the nation-state needs TNCs to create material wealth and jobs for its people. Thus the nation-state becomes dependent of the TNCs and has to share the economic power with TNCs. It means that the nation-state is no longer able to autonomously control the economy and its sovereignty is reduced. Yet, it is the nation-state who decides the fate of TNCs because they rely on the nation-state for two significant factors: one is about the conditions on which TNCs can access the markets and resources and the other is about the rules with which TNCs must comply when operate within a country (Dicken, 2007: 234).

China serves as a good example to show how the economic regulatory ability of the nation-state has changed to integrate in the world economy in general and to cope with TNCs in particular. It is obvious that the state of China has made "important stride away from the planned economic system" (Guthrie, 2006: 63). The number of TNCs in China has increased since it opened to the world economy. Guthrie (2006) explains that with a population of over one billion, China has been an attractive marketplace for many TNCs: "Coca-Cola, DuPont, General Motors, Kodak, Motorola, and many other blue-chip foreign firms that have been positioning themselves for years to capture the internal marketplace in China" (ibid. 64). These TNCs have created jobs for millions of Chinese citizens, and transferred technology to China which contributed much to the socio-economic progresses in this East Asia country. Guthrie (2006) also asserts that "China's dramatic success in economic reform has been precisely because of the state's participation in the process." More critically, in its economic integration process, Chinese state still has a dominant role in bargaining with TNCs. China keeps the right to give TNCs access to the domestic market. For instance, many automobile firms seek to enter its large market, but China has carried out "a policy of limited access for foreign firms" (Dicken, 2007: 244). While in various cases "TNCs play off one country against another" to gain the best deal', in the case of China "it is the state whose unique bargaining position enables it to play off one TNC against another" (ibid. 244).

Secondly, in a more globalised world the nation-state has sought to participate in international organisations and regional cooperation mechanisms. By the end of the 1990s there were over 250 international organisations in a world of more than 180 states while only 30 international organisations existed at the turn of the century in a world of less than 50 states[3] . In parallel with the growth in the number of international organisations, the number of nation-states becoming the official members of such organisations has been on the rise. For instance, the International Monetary Fund rises from 44 member states in December 1945 to the current total of 186; the World Bank, an international financial organisation with only 29 member states in 1945 presently reaches 186; the increasing number of states joining international organisations shows the fact that states around the world have been aware of the significance of international organisations in the globalised world.

Similarly, participation into the regional mechanisms is one of the nation-state's responses to globalisation. Regional cooperation mechanisms such as the European Union (EU), the Association of Southeast Asian Nations (ASEAN) have all been enlarged since their inception. The EU founded by six states in 1957 has embraced up to 27 states now. The ASEAN expanded from 6 member states in 1967 to 10 at present.

Under the umbrella of international organisations and regional cooperation mechanisms, the nation-state is able to speed up its integration into the world economy. The nation-state will "increase the attractiveness of its economy to potential investors" (Ravenhill, 2007: 125). More importantly, membership of a regional cooperation mechanism will enhance the 'bargaining power' (ibid. 122) of a nation-state with its trading partners, especially with TNCs. The goal of regional partnership is elaborated as follows: "to prevent TNCs from gaining concessions by playing off governments of the region against one another, and to use the carrot of access to a larger regional market to extract concession from potential investors" (ibid. 122).

Apart from that, the intervention of the nation-state has been much more strengthened to cope with transnational issues such as global financial crises and terrorism. Global financial crises require the intervention of the nation-state. Such financial crises in Mexico, East Asia, and Russia in the 1990s and the global financial crisis 2007-2008 have raised the awareness of the significance of the nation-state in regulating the economy. The forces of globalisation such as TNCs are unable to direct the global economy in a proper way. They even need help and regulation from the nation-state to overcome economic turbulence. For example, to overcome the 1997 financial crisis South Korea ran "a healthy trade surplus and enjoys $43 billion in foreign currency reserves" which could be used to buy the stock of ailing companies; thus "this would help to revitalize the companies by providing capital at the rate of the day and would provide incentives for foreign banks to convert debt into equity."[4] Recently, in the aftermath of the 2008 global financial crisis Chinese government provided a historic stimulus package of $586 billion to encourage growth and domestic consumption. Besides, proactive fiscal, moderately loose monetary policies and large-scale investments adopted by Chinese state have enabled its economy to recover faster. This supports the assertion that the state's intervention helps to 'rescue the reeling market.'[5] State intervention is absolutely vital to overcome economic crises.

Furthermore, terrorism attacks in New York, London, Bali and other cities in the world "brought security back on the centre stage" (Stubbs and Eaton, 2006: 372). This problem of insecurity has intensified the nation-states' authority because only states are able to mobilise the resources to conduct terrorism wars. Many states which "feared a recurrence of these attacks reasserted their authority over both social and economic policy areas" (ibid. 372).

The globalised world has not led to "the retreat of the nation-state" or the "demise of the nation state" as the hyperglobalists have boldly proclaimed. The emergence of new security threats has reinforced the authority of the nation-state. Obviously, "as the globalisation takes shapes, then, it does not involves some sort of linear process of the withering away of the state as a bureaucratic power structure; indeed, paradoxically in a globalising world states play a crucial role as stabilizers and enforcers of the rules and practices of *global* society' (Cerny, 1997: 257-258). As a rational actor in the international system, the nation-state has not been fixed (Scholte, 2005: 192). It has been evolving and adapting to cope with various circumstances in a more globalised world.

The Nation-State: Different Strengths – Different Extents of Changes

In the previous section, it is argued that the nation-state has changed to deal with the challenges of globalisation. Yet, it is noted that such changes are likely to vary from states to states (Woods, 2000: 10). This is also what Held (1989) points out: "it would be wrong to conclude that because a particular state has experienced a decline in its international freedom of action, sovereignty is thereby wholly undermined" (Held, 1989: 237). It is the state capability that determines the degree of globalisation impact on the nation-state: "A greater erosion of autonomy is occurring in respect of weak states than strong" (Woods, 2000: 10).

Strong states can "influence the rules of the international economy, and/ or control their own integration into the world economy" (ibid. 10). These states like the United States and other developed countries are able to affect to shape globalisation. Woods (2000) points out that "these countries' decision to deregulate and liberalise in various ways instigated the flows of currency, goods, services, and multinational activity across borders which we associate with globalisation" (ibid. 10). The United States provides the most obvious example of a strong state. This nation-state had an influential role in shaping "the creation, implementation, and breakdown of the Bretton Woods system" (Woods, 2005: 293). Also, strong states are likely to integrate in the world economy at a speed that does not adversely affect their own economies. In other words, they can embrace globalisation under "their own terms, at their own pace" (Stiglitz, 2003: 20). As for these strong states, transnational capital cannot enjoy "an upper hand in bargaining" (Singh, 2005: 167). Singh (2005) demonstrates that 'countries with a large domestic market (for instance China and India) can bargain better terms and conditions from transnational capital than the ones with small domestic market (for instance Bangladesh and Ethiopia)' (ibid. 167).

On the contrary, weak states have almost no impact on setting up the rules of the global economy system. Also, they are unlikely to "control their own integration into the world economy" (Woods, 2005: 293). For instance, 'in the aftermath of the debt crisis of the 1980s, weak states opened up their economies, liberalized and deregulated, more as a result of coercive liberalization than of democratic policy choice" (ibid. 293). This forced harmonisation shows that their economic regulation, regional integration and intervention authority are limited in globalisation. Obviously, the impact of globalisation on the nation-state is very much dependent on its capability. Strong states are "rule-makers" while weak states are "rule-takers" (ibid. 293).

Conclusion

The nation-state as a 'bordered power container' Giddens (1987: 13) has been influenced by globalisation. It should be noted that such influence does not "spell the end of nation-state" (Singh, 2005: 263). Instead, the nation-state has transformed itself to effectively solve the new missions under the globalised world. The reality shows that the nation-state has become a flexible economic regulator, sought to join international organisations and regional cooperation mechanisms; and intensified its invention power. More critically, the nation-state always preserves a "room to move" in the realm of globalisation (Mosley, 2007: 121). The changes made by the nation-state to effectively tackle with the global challenges point out that the nation-state is not "finished" (Holton, 1998: 80). They imply "the new function of the nation-state, both in domestic and foreign affairs" (Dittgen, 1999: 163) in the globalised world.

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[1] See, for example, Z. Bauman (1998), *Globalization: Human Consequences,* Cambridge: Polity, p. 57; G.H. Wright (1997) 'The Crisis of Social Science and the Withering Away of the Nation-State' *Associations,* vol. 1: 49-52.

[2] See, for example, M. Castells (1997), *The Information Age: Economy, Society and Culture,* Oxford: Blackwell; S. Lash and J. Urry (1994) *Economies of Signs and Space,* London: Sage.

[3] Union of International Associations (1996), *Yearbook of International Organizations 1996,* Munich: Saur, 1996.

[4] The Global Financial Crisis: http://www.nixoncenter.org/publications/Perspectives/greenberg3_5.htm (accessed 19 December 2010).

[5] China's Response to the Global Financial Crisis: http://chineseculture.about.com/od/thechinesegovernment/a/Chinaeconomy.htm, (accessed 29 December 2010).