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## IMPORTANCE OF NATION-STATE IN THE GLOBALIZED WORLD\*

*The nation-states no longer play a unique and exclusive role in modern societies since they have had to share powers and responsibilities with increasingly important non-state actors: the civil society and the private sector. In addition, the unprecedented military and economic power of the U.S., as well as the growth of world-wide networks of interdependence, has prevented other states and their leaders from being absolutely sovereign on their territories.*

*However, the author tends to demonstrate that nation-states haven't lost their role or their necessity for existence, and that there is a need, more than ever, for strong states with effective institutions. The author maintains that biggest paradox globalization faces today can be summarized as follows: globalization is decreasing the authority and strength of the nation-state as an obstacle to free trade, although a strong state (which does not mean an extensive state) is a precondition for free flows of capital and people.*

*Globalization presents opportunity for economic growth and the inflow of foreign investments. Nevertheless, the benefits of globalization are distributed unevenly, which undermines the very system of globalization, making it unsustainable in its current form. In short, developing countries with their weak institutions are not capable of seizing the opportunities offered by globalization. Therefore, the author concludes that the building and strengthening of public institutions in those countries would turn the whole process in the right direction.*

Key words:     *Globalization. – Nation-state. – Private sector. – Civil Society. – Governance.*

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## 1. INTRODUCTION

The world has changed dramatically in the last two decades. As a consequence of technological innovations, political decisions, and economic demands, the world has become smaller and more connected, consequently bringing uncertainty and complexity to its inhabitants. In order to depict these changes, the term ‘globalization’ has been introduced, and quickly becoming the main buzzword of our time. However, globalization is not a linear process with clear rules and certain outcomes. On the contrary, the globalized world is at the same time networked and fractured, demonstrating both homogenization and particularization. This is the system where actors compete and co-operate at the same time, changing our traditional perception of the world. The first chapter of this paper aims to describe this process, and to evaluate both its positive and negative aspects.

The principle of sovereignty of nation-states, which was dominant for many centuries, has faced a radical transformation in this new era. Nation-states have remained the dominant actors in world affairs, but they have lost their sole authority to govern their territories independently. Moreover, they have had to share powers and responsibilities with increasingly important non-state actors: the civil society and the private sector. Thus, the term governance, which comprises all governing actors in the contemporary world, has emerged to become the generally accepted phrase. However, strong states and their effective institutions, despite the presence of many non-state actors, are essential for the globalizing process, a concept analyzed further in the second chapter.

## 2. GLOBALIZATION

Globalization is probably the most researched subject in the last twenty years, and yet the most unclear and least understood one. Moreover, this process has different meanings for different people. “For some, globalization is a central reality; for others, it is still on the margins of their lives. In short, there is no one experience of globalization. That, in itself, is an important aspect of the process”.<sup>1</sup> The fact that people are living in different parts of the world indicates that they are affected very differently by this transformation. Therefore, globalization has been analyzed and described by various observers in different, often opposing ways.<sup>2</sup>

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<sup>1</sup> Frank J. Lechner and John Boli, eds., *The Globalization Reader* (Blackwell Publishing Ltd., Malden, Oxford, Carlton, 2004), p. 123.

<sup>2</sup> Steger compares this phenomenon with the ancient Buddhist allegory of the blind scholars and their encounter with the elephant. By touching different parts of the

The reason could also be found in the fact that this process is highly vague and blurred and eludes clear definition. Moreover, it comprises many smaller processes, which create further difficulties in grasping the whole issue while making disagreements among scholars much more likely. As Steger points out, “globalization is not a single process, but a set of processes that operate simultaneously and unevenly on several levels and in various dimensions”.<sup>3</sup> That is the reason that studies of this phenomenon cut across traditional scientific boundaries and require an interdisciplinary and comprehensive approach.<sup>4</sup>

For the purpose of this paper, I will accept Nye’s definition of globalization as “the growth of worldwide networks of interdependence,”<sup>5</sup> indicating that this process is not the product of modern times, as is usually perceived by lay persons, but has a much older origin.<sup>6</sup> What is definitely new is the magnitude, complexity, and speed of contemporary globalization, compared to similar processes throughout history.<sup>7</sup> “The networks are thicker and more complex, involving people from more regions and social classes.”<sup>8</sup> In other words, globalization goes “farther, faster, deeper and cheaper than ever before.”<sup>9</sup>

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animal’s body, they had completely different perceptions of the elephant’s appearance. See: Manfred B. Steger, *Globalization, A Very Short Introduction* (Oxford University Press, New York, 2003), pp. 13 – 14.

<sup>3</sup> *Ibid.*, p. 36; Allison goes further and emphasizes that globalization is a conceptual construct, not a simple fact. Graham Allison, “The Impact of Globalization on National and International Security”, in Joseph S. Nye Jr. and John D. Donahue, eds., *Governance in a Globalizing World* (Brookings Institution Press, Washington, D.C., 2000), p. 72; For Friedman, globalization is an international system that replaced the Cold War system after the fall of the Berlin Wall. See: Thomas L. Friedman, *The Lexus and The Olive Tree, Understanding Globalization* (Anchor Books, New York, 2000), p. 7.

<sup>4</sup> Steger, *Globalization*, Preface.

<sup>5</sup> Joseph S. Nye, Jr., *The Paradox of American Power, Why the World’s Only Superpower Can’t Go It Alone* (Oxford University Press, Oxford, New York, 2002), p. 78.

<sup>6</sup> About historical perspectives on globalization, see: Jurgen Osterhammel and Niels P. Peterson, *Globalization, A Short History* (Princeton University Press, Princeton and Oxford, 2005).

<sup>7</sup> David Held and others, *Global Transformations: Politics, Economics and Culture* (Stanford University Press, 1999), p. 235, quoted in Robert O. Keohane and Joseph S. Nye Jr., Introduction, in Nye and Donahue, eds., *Governance in a Globalizing World*, p. 11.

<sup>8</sup> In ‘bumper-sticker’ words, globalization is “thicker and quicker”. Nye, *The Paradox of American Power*, pp. 78, 85;

<sup>9</sup> Friedman, *The Lexus and The Olive Tree*, p. 9; As Marquardt and Berger suggest, four T’s have brought us to this global age: technology, travel, trade, and television. Michael J. Marquardt and Nancy O. Berger, eds., “A New Century Requires New Types of Leaders”, in *Global Leaders for the Twenty-First Century*, (State University of New York Press, Albany, 2000), p. 3.

Although there are several disagreements among scholars concerning globalization, it has become conventional wisdom to analyze this process at three different levels: economic, political, and cultural. Despite evident conceptual differences among them, it is important to emphasize that there are no clear lines which cut across these dimensions. All of them have mutual influences and cannot be analyzed in seclusion, without basic knowledge of the other levels. Hence, all of them will be briefly analyzed in this paper, although the main attention will be focused on the political dimension.

## 2.1. Economic globalization

Economic globalization is the engine of the entire phenomenon. It is based on a simple premise: the world has become a single, integrated economy where everyone is dependent on everyone else.<sup>10</sup> The parts of the world economic system have become so inter-reliant that they have now all become vulnerable to distant crises. “The production of many goods (...) spread across the globe, linking companies, workers, and whole countries in transnational ‘commodity chains.’”<sup>11</sup> The institutional frame of economic globalization has been comprised of three main organizations: the International Monetary Fund (IMF), the World Bank, and the World Trade Organization (GAAT/WTO). These organizations are designed to promote open trade and worldwide development, and they are responsible for making and enforcing the rules of the global economy.<sup>12</sup> Those rules and policies have become known as the Washington Consensus because of their origins in financial institutions located there.<sup>13</sup> “One may roughly summarize this consensus as (...) the belief that free-markets and sound money is the key to economic development.”<sup>14</sup> Liberalization of capital markets and trade, privatization, tax reform, and realistic exchange rates have become the basic rules, someone would say mantra, of the modern economic system.<sup>15</sup> The developing countries are required by those rules to implement structural adjustment programs in order to obtain much-needed loans. Those programs require governments to cut pub-

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<sup>10</sup> Lechner and Boli, eds., *The Globalization Reader*, p. 157.

<sup>11</sup> *Ibid.*, 158.

<sup>12</sup> Richard N. Haass and Robert E. Litan, “Globalization and Its Discontents, Navigating the Dangers of a Tangled World“, in *Globalization: Challenges and Opportunity* (Foreign Affairs, New York, 2002), p. 125; Steger, *Globalization*, p. 52.

<sup>13</sup> Merilee S. Grindle, “Ready or Not: The Developing World and Globalization, in Nye and Donahue”, eds., *Governance in a Globalizing World*, p. 181.

<sup>14</sup> Leslie Sklair, “Sociology of the Global System”, in Lechner and Boli, eds., *The Globalization Reader*, p. 70.

<sup>15</sup> Jessica Einhorn, “The World Bank’s Mission Creep”, in *Globalization: Challenges and Opportunity*, p. 85.

lic spending, liberalize financial markets, increase interest rates to attract foreign capital and investments, and eliminate tariffs, quotas, and other controls on imports.<sup>16</sup> Unfortunately, those programs rarely produce the desired results.<sup>17</sup> The explanation can be found in the fact that states are forced to undertake radical changes in domestic policy without any guarantee regarding the liberalization of external markets or access to modern technologies and capital.<sup>18</sup> However, the main reason for the failure of many developing countries can be found in their weak and ineffective institutions, which cannot successfully implement and control the required policies. This demonstrates that economic globalization cannot be analyzed without its political context.

## 2.2. Political globalization

Political globalization is a central aspect of the process since “almost all forms of globalization have political implications.”<sup>19</sup> This aspect of globalization can be analyzed on different levels. The very fact that the entire world, with a few exceptions, is organized through an identical type of political unit, the nation-state, is a starting point and a most visible sign of political globalization.<sup>20</sup> Moreover, sovereign nation-states

<sup>16</sup> “A Better World is Possible!”, in Lechner and Boli, eds., *The Globalization Reader*, p. 442.

<sup>17</sup> Steger, *Globalization*, pp. 52 – 53; Wood argues that debt has become the main instrument of the new imperialism. “The goal was to open other economies, their resources, their labour and their markets, to western, especially US capital”. Ellen Meiksins Wood, *Empire of Capital*, (Verso, London, New York, 2005), pp. 131, 132; In a similar way, Perkins admits that his job was “to convince third world countries to accept enormous loans for infrastructure development – loans that were much larger than needed – and to guarantee that the development projects were contracted to U.S. corporations (...). Once these countries were saddled with huge debts, the U.S. government and the international aid agencies allied with it were able to control these economies (...). The larger the loan, the better. The fact that the debt burden placed on a country would deprive its poorest citizens of health, education, and other social services for decades to come was not taken into consideration”. See: John Perkins, *Confessions of an Economic Hit Man*, (Ebury Press, London, 2006), pp. 16, 248.

<sup>18</sup> Ramesh Ramsaran, “Inequality and the Division of Gains at the Global Level: Some Reflections, in Ann Marie Bissessar”, ed., *Globalization and Governance, Essays on the Challenges for Small States*, (McFarland & Company, Jefferson, NC, London, 2004), p. 139.

<sup>19</sup> Keohane and Nye, “Introduction, in Nye and Donahue”, eds., *Governance in a Globalizing World*, p. 6.

<sup>20</sup> Lechner and Boli, eds., *The Globalization Reader*, p. 211; The sovereign nation-state, which replaced feudalism and established the rule of law, has been the leading actor in world politics for more than two centuries. See: Bruce R. Scott, “The Great Divide in the Global Village”, in *Globalization: Challenges and Opportunity*, p. 64; Edward S. Cohen, *The Politics of Globalization in the United States*, (Georgetown University Press, Washington, D.C., 2001), p. 33.

show considerable uniformity in terms of their organization, functions, programs, and overall goals.<sup>21</sup> However, nation-states are no longer the only political units, with omnipotent powers and sole responsibility in their territory. They are increasingly sharing powers and responsibilities with businesses, international organizations, and a variety of citizens groups known as nongovernmental organizations (NGOs).<sup>22</sup> Moreover, these actors compete with governments not just in internal politics and within national borders, but simultaneously in international relations and at the global level. As Bond puts it, “where once global politics were dictated exclusively by elected governments, now elected governments must compete with “civil society”<sup>23</sup> and transnational corporations. This new role of the state, as well as the state’s changing nature and character, probably presents the most important aspect of political globalization today. Such a new circumstance has required a new vocabulary. Thus, the term governance was introduced in the last decades of the 20<sup>th</sup> century to depict those changes and to encompass all actors besides the state in a contemporary world. In the second chapter of this paper this term, especially in the context of globalization, is thoroughly analyzed.

### 2.3. Cultural globalization

Cultural globalization presents itself as a byproduct of economic and political globalization, although it is often a more visible and disturbing aspect of this process. It suggests intensification of cultural flows and exchange around the globe,<sup>24</sup> and culture presents “the sum total of ways of life, thought and action, behavior, beliefs, customs and the values underlying them.”<sup>25</sup> The problem with cultural globalization is that it is often perceived not as an exchange, but rather as an imposition of western, especially American, ideas and values. That is the reason that the terms Americanization, Westernization, and cultural imperialism are used by many to describe cultural globalization. There is no doubt that globalization, especially in its cultural aspect, is America-centric, because the content of global information networks is largely created in the U.S.<sup>26</sup> However, quoted phrases can be misleading, implying some level of force as

<sup>21</sup> Lechner and Boli, eds., *The Globalization Reader*, p. 211.

<sup>22</sup> Jessica T. Mathews, “Power Shift”, in Lechner and Boli, eds., *The Globalization Reader*, p. 270.

<sup>23</sup> Michael Bond, “The Backlash Against NGOs”, in Lechner and Boli, eds., *The Globalization Reader*, p. 277.

<sup>24</sup> Steger, *Globalization*, p. 69.

<sup>25</sup> NJAC report, quoted in John La Guerre, Cultural Policy, “Globalization and the Governance of Plural Societies”, in Ann Marie Bissessar, ed., *Globalization and Governance*, p. 206.

<sup>26</sup> Nye, *The Paradox of American Power*, p. 80.

a part of this process. In fact, things are much more complicated. As Fuller suggests, “the desirability of American cultural products – which are perceived to be superior, modern, the wave of the future – means that the ‘victims’ themselves play an important role in the spread of American culture.”<sup>27</sup> Moreover, American culture is in a continuous state of change and subject to constant foreign influences, which makes it both universal and appealing.<sup>28</sup> Furthermore, Western and American culture are not replacing local cultures and traditions, as can be assumed. “American culture is becoming everyone’s second culture. It doesn’t necessarily supplant local traditions, but it does activate a certain cultural bilingualism.”<sup>29</sup> This complex set of social-cultural influences and interactions has been described as hybridization or glocalization and is a main characteristic of cultural globalization today.<sup>30</sup>

#### 2.4. Shades of gray (value judgment)

An analysis of the main aspects of globalization poses a simple question: is this process good or bad? I would argue neither. Any sharp and radical conclusion cannot provide a realistic and objective description of this system. As Brzezinski put it, “black and white view of the world ignores the shades of gray that define most global dilemmas.”<sup>31</sup> Or, as the late Pope John Paul II argued, “globalization, a priori, is neither good nor bad. It will be what people make of it.”<sup>32</sup>

Globalization presents opportunity for economic growth, the inflow of foreign capital and investments, which in the final phase can decrease the level of poverty in developing countries.<sup>33</sup> Also, competition among different actors at the global level can decrease the price of goods, making them more affordable for all people.<sup>34</sup> Taking that into account, Wolf’s

<sup>27</sup> Steve Fuller quoted in Ziauddin Sardar, Merryl Wyn Davies, *Why Do People Hate America?* (The Disinformation Company Ltd., New York, 2002), p. 130.

<sup>28</sup> Neal M. Rosendorf, “Social and Cultural Globalization: Concepts, History, and America’s Role”, in Nye and Donahue, eds., *Governance in a Globalizing World*, p. 119; See also: Cohen, *The Politics of Globalization in the United States*, pp. 66 – 67.

<sup>29</sup> An unnamed Norwegian scholar quoted in Nye, *The Paradox of American Power*, p. 71.

<sup>30</sup> See: Rosendorf, “Social and Cultural Globalization”, in Nye and Donahue, eds., *Governance in a Globalizing World*, p. 109.

<sup>31</sup> Zbigniew Brzezinski, *The Choice, Global Domination or Global Leadership* (Basic Books, New York, 2005), p. 26.

<sup>32</sup> Quoted in Brzezinski, *The Choice*, p. 152.

<sup>33</sup> *Ibid.*, 140.

<sup>34</sup> Shaeffer R, *Understanding Globalization: The Social Consequences of Political, Economic and Environmental Change* (Rowman and Littlefield, 1997), quoted in Sadiya Niyakan-Safy, “Rethinking Globalization’s Discontent”, in Bissessar, ed., *Globalization and Governance*, p. 124.

statement that “the world needs more globalization, not less,”<sup>35</sup> is becoming clear and acceptable.

However, the benefits of globalization are distributed unevenly, which undermines the very system of globalization, making it unsustainable in its current form. In short, developing countries with their weak institutions are not capable of seizing the opportunities offered by globalization. Huntington recognized that problem of developing countries long before the term ‘globalization’ was even introduced. In his words, “the most important political distinction among countries concerns not their form of government but their degree of government. (...) The primary problem of politics is the lag in the development of political institutions behind social and economic change.”<sup>36</sup>

Furthermore, developed countries are not consistent in the policies which they impose on the developing countries, meaning that the open market is not really open in all areas and fields of industry and trade. As Scott argues, “rich countries insist on open markets where they have an advantage and barriers in agriculture and immigration, where they would be at a disadvantage.”<sup>37</sup> That is the reason that the balance between openness and social responsibility is becoming not just desirable, but the only real solution for most developing countries. Needless to say, nation-state has a major role in this delicate balancing.

In addition, the global market is still far from being integrated, which is illustrated by the fact that “wages, prices and conditions of labour are still so widely diverse throughout the world. In a truly integrated market, market imperatives would impose themselves universally (...). But, on balance, global capital benefits from uneven development, at least in the short term”.<sup>38</sup>

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<sup>35</sup> Martin Wolf, *Why Globalization Works*, (Yale University Press, New Haven and London, 2004), p. 320.

<sup>36</sup> Samuel P. Huntington, *Political Order in Changing Societies* (Yale University Press, New Haven & London, 1968, 1996), pp. 1, 5.

<sup>37</sup> Scott, *The Great Divide in the Global Village*, p. 57; Stiglitz argues in a similar fashion: “Today, few (...) defend the hypocrisy of pretending to help developing countries by forcing them to open up their markets to the goods of the advanced industrial countries while keeping their own markets protected, policies that make the rich richer and poor more impoverished – and increasingly angry.” Joseph E. Stiglitz, *Globalization and Its Discontents* (W. W. Norton & Company, New York, London, 2003), p. XV; Wood is even more straightforward in her assumptions. She claims that “globalization has nothing to do with free trade. On the contrary, it is about the careful control of trading conditions, in the interests of imperial capital”. Wood, *Empire of Capital*, p. 134.

<sup>38</sup> *Ibid.*, p. 136; Perkins explicitly asserts that “today, we still have slave traders. They no longer find it necessary to march into the forest of Africa looking for prime specimens (...). They simply recruit desperate people and build a factory to produce the jackets, blue jeans, tennis shoes, automobile parts, computer components, and thousands of other items they can sell in the markets of their choosing. (...) The modern slave trader



Globalization in its current form is doomed to failure, not because of the strength of competing systems (actually, there are no serious alternatives), but because of flaws in the very process of globalization. The biggest paradox that globalization is facing today, which undercuts its own foundation, can be summarized as follows: globalization is decreasing the authority and strength of the nation-state as an obstacle to free trade, although the strong state (which does not mean the extensive state) is a precondition for free flows of capital and people. As Steger puts it, “since only strong governments are up to this ambitious task of transforming existing social arrangements, the successful liberalization of markets depends upon intervention and interference by centralized state power. Such actions, however, stand in a stark contrast to the neoliberal idealization of the limited role of government.”<sup>39</sup> Wood argues in a similar way, that “the state lies at the very heart of the new global system” and “the very essence of globalization is a global economy administered by a global system of multiple states and local sovereignties, structured in a complex relation of domination and subordination”.<sup>40</sup> Moreover, the nation-state as a source of identity is required as a guardian from radical, often religious and nationalist movements. When the nation-state is weak, those movements step in to fill the existing gaps.<sup>41</sup> In the final phase, failed states impede any kind of free market and become the source of the main problems in global society; terrorism is probably the most dangerous and visible one.

Globalization, as a growth of worldwide networks of interdependence, deserves a reasoned defense, but it also needs essential reform and transformation.<sup>42</sup> To start, the world needs more delicate, country-by-country approaches which will respect diversity among nations and cultures. External economic advice and aid must be adjusted to each country’s unique political and social context.<sup>43</sup> Above all, the nation-state and

assures himself (or herself) that the desperate people are better off earning one dollar a day than no dollars at all, and that they are receiving the opportunity to become integrated into the larger world community”. Perkins, *Confessions of an Economic Hit Man*, pp. 180 – 181; About growing corporate practice of shipping jobs to cheap foreign labor markets, see: Lou Dobbs, *Exporting America, Why Corporate Greed Is Shipping American Jobs Overseas*, (Warner Books, New York, Boston, 2004).

<sup>39</sup> Steger, *Globalization*, p. 97.

<sup>40</sup> Wood, *Empire of Capital*, p. 139, 141.

<sup>41</sup> See: Samuel P. Huntington, *The Clash of Civilization and the Remaking of World Order* (Simon & Schuster, New York, 1996); As Cohen puts it, “when it reaches a certain point, globalization inevitably challenges some of the fundamental values, narratives, and symbols that have held communities together, and some sort of reaction is inevitable”. Cohen, *The Politics of Globalization in the United States*, p. 160.

<sup>42</sup> Amartya Sen, “How to Judge Globalism”, in Lechner and Boli, eds., *The Globalization Reader*, p. 21.

<sup>43</sup> Scott, *The Great Divide in the Global Village*, p. 70; RAND analysts emphasize that importance by saying that “many reconstruction and reform programs, often imple-

its institutions, despite the presence of many useful and necessary non-state actors, have to be strengthened, which will be analyzed further in the next chapter.

### 3. GLOBALIZATION AND GOVERNANCE

The sovereign nation-state has played a dominant role in the organization of human society for a long period. As Steger points out, “for the last few centuries, humans have organized their political differences along territorial lines that generate a sense of ‘belonging’ to a particular nation-state.”<sup>44</sup> The nation-state was born as a product of the Peace of Westphalia, concluded in 1648, which ended a series of religious wars among the main European powers. The foundation of the nation-state was built on the principles of sovereignty and territoriality; this system challenged and gradually replaced the medieval feudal mosaic of small entities in which political power was mainly local and personal.<sup>45</sup> The new system was based on the premise that the world is divided into sovereign nation-states which recognize no superior authority. In addition, processes of law-making and enforcement, as well as the settlement of disputes, are placed exclusively in the hands of newly formed nation-states, and, later, of intergovernmental organizations, which gain their authority from nation-states.<sup>46</sup>

This system remained dominant and survived for a few centuries, due to its ability to adjust itself to new events and circumstances. Nation-states proliferated during the 20th century, largely as a consequence of the collapse of empires after WWI and the process of decolonization after WWII. The world’s division into two blocs, while making smaller states less relevant, did not replace the Westphalian system. However, after the fall of the Berlin Wall in 1989, it became clear that the old system was seriously shaken. In 1990, when U.S. President George H. W. Bush announced the birth of a New World Order, it was quite obvious that an old model had disappeared.<sup>47</sup> The unprecedented military and economic power of the U.S., as well as the growth of worldwide networks of inter-

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mented by Western policing, justice, and intelligence professionals, are overly positivist and technocratic in their approach. To ensure that reconstruction and reform programs are of lasting value, it is important that internal security specialists and development specialists work together with regional experts to structure programs that are adapted to the context.” Seth G. Jones, Jeremy M. Wilson, Andrew Rathmell, and K. Jack Riley, *Establishing Law and Order After Conflict* (Summary), RAND Corporation, 2005, p. xix.

<sup>44</sup> Steger, *Globalization*, p. 56.

<sup>45</sup> *Ibid.*, p. 57.

<sup>46</sup> David Held defines seven elements of the Westphalian model. See: David Held, *Global Transformations*, pp. 37 – 38, quoted in Steger, *Globalization*, p. 58.

<sup>47</sup> *Ibid.*, pp. 59 – 61.

dependence, has prevented other states and their leaders from being absolutely sovereign on their territory any more. In other words, the world has become “smaller,” which, as a consequence, has made individual nation-states more vulnerable to events around the globe. The line between domestic and foreign issues has become blurred. The tragic events of September 11, 2001 just emphasized that fact.

In efforts to depict this changed situation in the world brought by globalization, a new term – governance – was introduced by scholars and practitioners in the last decades of the 20<sup>th</sup> century. It was obvious in that period that the nation-state no longer played a unique and exclusive role in this complex society. Nation-states, of course, haven’t disappeared, but they have had to share powers and responsibilities with increasingly important non-state actors: the civil society and the private sector. Thus, the term governance has emerged and has quickly become a generally accepted phrase.<sup>48</sup> According to the United Nations Development Program (UNDP) definition from 1997, “governance transcends the state to include civil society organizations and the private sector, because all are involved in most activities promoting sustainable human development.”<sup>49</sup> This definition clearly identifies three main elements of governance: the state (usually called government) and its institutions, the civil society (nongovernmental organizations), and the private sector (with an increasing importance of transnational corporations). It is important to emphasize that these three sectors do not exist in isolation, but rather are highly interdependent. Sometimes they compete with each other, but very often they complement and harmonize their mutual activities (usually in the form of partnerships).<sup>50</sup> Moreover, the term governance is not limited to the state level, but includes local, regional, international, and global levels, which are all directly or indirectly connected in the age of globalization.<sup>51</sup>

### 3.1. Nation-state (changed role and character)

Globalization has thoroughly changed the character and nature of traditional nation-states. As mentioned in this chapter, sovereign nation-

<sup>48</sup> It is interesting that there is no appropriate and precise expression for this phrase in the Serbian language.

<sup>49</sup> Quoted in Ali Farazmand, “Sound Governance in the Age of Globalization: A Conceptual Framework”, in Ali Farazmand, ed., *Sound Governance, Policy and Administrative Innovations* (Praeger, Westport, London, 2004), p. 7.

<sup>50</sup> Keohane and Nye, “Introduction”, in Nye and Donahue, eds., *Governance in a Globalizing World*, p. 23; See also: Thorsten Benner, Wolfgang H. Reinicke, and Jan Martin Witte, “Global Public Policy Networks, Lessons Learned and Challenges Ahead”, *The Brookings Review*, Spring 2003, Vol. 21, No. 2, The Brookings Institution, pp. 18–21.

<sup>51</sup> Farazmand, “Sound Governance in the Age of Globalization: A Conceptual Framework”, in Ali Farazmand, ed., *Sound Governance*, pp. 7, 18.

states have lost their sole authority to govern independently in their territories. Officially they have remained sovereign, but in fact their policies have been increasingly influenced by binding decisions and codes of conduct of supranational governance organizations (IMF, WB, WTO and EU).<sup>52</sup> Furthermore, the unparalleled strength and power, both military and economic, of the U.S. have limited the scope of sovereignty of other states and are perceived by many non-Americans as a global hegemony. The threat of military intervention is just one, albeit rarely exercised, aspect of this hegemony. For most countries, the influence which the U.S. has on global economic institutions, as well as the strength and dominance of the American market, are much more important aspects of American superiority. In addition, America is not just the only superpower in the world; it has become the defining power as well. As Sardar and Davis put, “America defines what is democracy, justice, freedom; what are human rights and multiculturalism; who is ‘fundamentalist’, a ‘terrorist’, or simply ‘evil’. (...) The rest of the world, including Europe, must simply accept these definitions and follow the American lead.”<sup>53</sup> Otherwise, they face expulsion from the American market, economic sanctions, or, in the worst cases, military intervention. All of these forces are changing the character of nation-states and making them less sovereign.<sup>54</sup>

The traditional nature of the state has also been changed by the increasing degree of interdependence among modern states, which is mainly caused by the necessity for cooperation in matters that concern all people on the planet. The most important example of this change is the alarming concern for the global environment and awareness that individual actions cannot provide desirable results in this area.<sup>55</sup> Environmental degradation affects the entire world, making global cooperation not just desirable, but the only possible approach to those problems.<sup>56</sup> At the same time, those joint actions mean that states voluntarily disavow one part of their sovereignty for universal goals.

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<sup>52</sup> Ali Farazmand, “Globalization and Governance: A Theoretical Analysis”, in Farazmand, ed., *Sound Governance*, p. 41.

<sup>53</sup> Sardar and Davies, *Why Do People Hate America?*, pp. 178, 201.

<sup>54</sup> However, this process has been highly exaggerated in modern literature and run to an extreme. As Weiss suggests “the state itself is in its death throes, we are constantly told. For this is the era of ‘civil society’ and ‘postmodernity’, of ‘global society’ and the transnational market. (...) Wherever we look across the social sciences, the state is being weakened, hollowed out, carved up, toppled or buried. We have entered a new era of ‘state denial’”. Linda Weiss, *The Myth of the Poweless State, Governing the Economy in a Global Era*, (Polity Press, Cambridge, 2004), p. 2.

<sup>55</sup> Farazmand, “Globalization and Governance: A Theoretical Analysis”, in Farazmand, ed., *Sound Governance*, p. 41.

<sup>56</sup> Lechner and Boli, eds., *The Globalization Reader*, p. 363; See also: J. F. Rischard, *High Noon, 20 Global Problems, 20 Years to Solve Them* (Basic Books, New York, 2002).

Finally, under the forces of globalization, “the role of government is progressively shifting toward providing an appropriate enabling environment for private (corporate) enterprise.”<sup>57</sup> This change is comprised of a shift from a welfare state to a corporate (competition) state. In contrast to a welfare state, which tends to balance public and private interests, a corporate state is mainly concerned with providing fertile ground for private initiatives. The state has decreased its role as the major provider of public goods and services, while at the same time it has increased its function as a partner and promoter of the private sector.<sup>58</sup>

### 3.2. Private sector

The private sector is one of the main actors in the contemporary world, in some ways even more powerful than the nation-state. Thus, 51 out of the 100 largest economies today are transnational corporations (TNCs), and just 49 are states.<sup>59</sup> The whole global economy is dominated by huge TNCs, which sell their products all over the world, making it difficult or even impossible for smaller firms companies to survive. In order to gain bigger profits, TNCs produce and maintain the culture or ideology of consumerism, which is a vital element of global capitalism. With great assistance from the media, they are intentionally blurring the lines among information, entertainment, and promotion of products.<sup>60</sup> In order to control global capital and material resources, TNCs easily cross national borders, influencing and interacting with domestic policies.<sup>61</sup> At the same time, almost all countries are trying to attract global capital as a means of increasing internal development and decreasing unemployment. However, countries with a well-educated and skilled population are in a

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<sup>57</sup> UNCTAD, 1996a, pp. IC1 – 22, quoted in Farazmand, “Globalization and Governance: A Theoretical Analysis”, in Farazmand, ed., *Sound Governance*, p. 41.

<sup>58</sup> *Ibid.*, pp. 41 – 42; Weiss underlines interdependence as one of the main aspects of government-business relations. “Firms rely on their governments to establish and nurture conditions essential (...) for access to stable markets. Governments, on the other hand, depend on firms to increase wealth by generating jobs and growth”. Weiss, *The Myth of the Poweless State*, p. 38.

<sup>59</sup> Wolfgang Sachs, “Globalization and Sustainability”, in Lechner and Boli, eds., *The Globalization Reader*, p. 403.

<sup>60</sup> Leslie Sklair, “Sociology of the Global System”, in Lechner and Boli, eds., *The Globalization Reader*, pp. 72 – 75; Alex Carey highlights that “the twentieth century has been characterized by three developments of great political importance: the growth of democracy, the growth of corporate power, and the growth of corporate propaganda as a means of protecting corporate power against democracy”. Quoted in: Dobbs, *Exporting America*, p. 7.

<sup>61</sup> Nevertheless, TNC’s have their own base in single nation-states, and “depend on them in many fundamental ways”. See: Wood, *Empire of Capital*, p. 135; Similar: Weiss, *The Myth of the Powerless State*, p. 185.

much better position to benefit from investment opportunities, as well as a small group of people in developing countries (elites, wealthy, globally connected). Unfortunately, a majority of the population in developing countries appears only as an unlimited source of cheap labor and is increasingly marginalized.<sup>62</sup> Even the most responsible corporations cannot avoid the essential imperatives of capitalism (competition, profit-maximization and accumulation), “which inevitably means putting profit above all other considerations, with all its wasteful and destructive consequences”.<sup>63</sup> Moreover, the strength and importance of the global market have reduced the ability of states to manage their own political and economic destinies so that “in the face of powerful economic forces that were shaping the world, and the inability of states to offer much protection, movements have arisen to provide some kind of collective response.”<sup>64</sup> Those movements have become known as civil society or nongovernmental organizations (NGOs).

### 3.3. Civil society (nongovernmental organizations)

Civil society can be defined as “an area of association and action independent of the state and the market in which citizens can organize to pursue purposes that are important to them, individually and collectively.”<sup>65</sup> While governments pursue the public interest, and businesses are oriented to private interests, civil society is concerned with the interests of social groups within society, especially those groups disadvantaged

<sup>62</sup> Merilee S. Grindle, “Ready or Not: The Developing World and Globalization”, in Nye and Donahue, eds., *Governance in a Globalizing World*, p. 188.

<sup>63</sup> Wood, *Empire of Capital*, p. 14; The same author accurately argues that “capitalism is driven by competition, yet capital must always seek to thwart competition. It must constantly expand its markets and constantly seek profit in new places, yet it typically subverts the expansion of markets by blocking the development of potential competitors”. *Ibid.*, p. 22; In a similar way, Justice Hugo Black stresses that “free market competition inevitable tends to lead to the development of monopoly power by those who have over the decades survived the forces of free-wheeling, cutthroat competition. Social Darwinism suggests that survival-of-the-fittest competition among firms in an industry produces monopoly control or at least oligarchical control over goods production or service delivery”. Quoted in Kenneth F. Warren, *Administrative Law in the Political System*, (Westview Press, Boulder, 2004), p. 91; Present market of Serbia, which has been ‘sufocused’ by small number of tycoons, absolutely confirms these arguments.

<sup>64</sup> L. David Brown, Sanjeev Khagram, Mark H. Moore, Peter Frumkin, “Globalization, NGO, and Multisectoral Relations”, in Nye and Donahue, eds., *Governance in a Globalizing World*, p. 274.

<sup>65</sup> *Ibid.*, p. 275; Civil society can also be defined as “the intermediate realm between state and family, populated by organizations that are separate from the state, that enjoy autonomy in relation to the state, and are voluntarily formed by members of the society to protect or extend their interests or values”. IDB 2001, p. 141, quoted in Jack Menke, “Globalization, Diversity and Civil Society in the Caribbean, Integration by Design or Default?”, in Bissessar, ed., *Globalization and Governance*, p. 59.

and unprotected by existing arrangements.<sup>66</sup> The world has witnessed an explosion in the number and size of nongovernmental organizations in the last two decades, from tiny village associations to influential and giant global organizations like Greenpeace.<sup>67</sup> Although diverse in activities and goals, the big international NGOs cover three main areas: human rights, development, and the environment.<sup>68</sup> Because of their flexibility, they are often much more effective than government institutions, for example, in aid distribution or poverty relief. Moreover, they are usually better positioned to control TNCs, due to their closeness to grassroots and their capabilities to mobilize public opinion. As a result, corporations are more and more involved in corporate social responsibility, because otherwise they risk the consequences of bad press or consumer boycott.<sup>69</sup>

However, NGOs have been the objects of serious criticism recently, especially in terms of the transparency and accountability of their work. Moreover, their motives and good intentions have been questioned and challenged. According to many, the proliferation of NGOs has more to do with the availability of resources for their work than with the protection of particular groups or value-based missions.<sup>70</sup> Above all, by providing aid and services in developing countries, without building and strengthening states' own capacities, NGOs can just weaken already ineffective state-institutions.

### 3.4. Need and importance of state strengthening (building)

No matter how strong the globalization process is, or how increasing role non-state actors have today, nation-states haven't lost their necessity for existence. On the contrary, there is a need more than ever for strong states with effective institutions as guarantors of processes in the contemporary world. As Nye puts it, "there is little evidence that a sufficiently strong sense of community exists at the global level or that it could soon be created. (...) At this point in history democracy works best in sovereign nation-states, and that is likely to change only slowly."<sup>71</sup>

<sup>66</sup> Brown, Khagram, Moore, Frumkin, "Globalization, NGO, and Multisectoral Relations", in Nye and Donahue, eds., *Governance in a Globalizing World*, p. 276

<sup>67</sup> Jessica T. Mathews, "Power Shift, in Lechner and Boli", eds., *The Globalization Reader*, p. 271.

<sup>68</sup> Bond, "The Backlash Against NGOs", in Lechner and Boli, eds., *The Globalization Reader*, p. 278.

<sup>69</sup> *Ibid.*, pp. 278–279; Ethan B. Kapstein, "The Corporate Ethics Crusade", in *Globalization: Challenges and Opportunity*, pp. 113–114.

<sup>70</sup> Brown, Khagram, Moore, and Frumkin, "Globalization, NGO, and Multisectoral Relations", in Nye and Donahue, eds., *Governance in a Globalizing World*, p. 278.

<sup>71</sup> Nye, *The Paradox of American Power*, pp. 109, 163; See also: Grindle, "Ready or Not: The Developing World and Globalization", in Nye and Donahue, eds., *Governance in a Globalizing World*, p. 193.

Even with such strong networks of global interdependence, or even because of them, “most people remain strongly rooted to the ties of local, regional, and national communities that give people a sense of blood and belonging.”<sup>72</sup> Thus, claims that we are all becoming cosmopolitan citizens (citizens of the world) must be seen as exaggerations, since most people in most societies remain rooted in their local communities or nation-states.<sup>73</sup> Wolf, as a prominent defender of globalization, also argues that “the primary loyalty to the nation makes a nation state an extraordinarily potent form of social organization” and that “individual states remain the locus of political debate and legitimacy.”<sup>74</sup> It is the state structures, and the loyalty of people to particular states, that enable them to create connections among themselves, handle issues of interdependence, and resist amalgamation.<sup>75</sup> Wood sums up those ideas by saying that “the world today (...) is more than ever a world of nation states”.<sup>76</sup>

However, the nation-state has, and should be, changed in order to address the problems of the contemporary world. Old and extensive bureaucratic systems cannot survive new and dramatically changed circumstances. As Friedman suggested, “because of globalization and the increasing openness of borders, the quality of (...) state matters more not less”.<sup>77</sup> Thus, many state sectors and policies of developing countries, as obstacles to economic growth, need to be reduced, if not eliminated. Nevertheless, the problem lies in the fact that although states need to be cut back in some areas, they need to be simultaneously strengthened in others.<sup>78</sup> As Fukuyama points out, there is a great importance in distinguishing between “the scope of state activities, which refers to the different functions and goals taken on by governments, and the strength of state power, or the ability of states to plan and execute policies and to enforce laws cleanly and transparently. (...) While the optimal reform path would have been to decrease scope while increasing strength, many countries actually decreased both scope and strength.”<sup>79</sup> The international community, led by the U.S., despite its best intentions, is often involved, not in

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<sup>72</sup> Pippa Norris, “Global Governance and Cosmopolitan Citizens”, in Nye and Donahue, eds., *Governance in a Globalizing World*, p. 173.

<sup>73</sup> *Ibid.*, p. 166.

<sup>74</sup> Wolf, *Why Globalization Works*, pp. 36, 319.

<sup>75</sup> Keohane and Nye, p. 13.

<sup>76</sup> Wood, *Empire of Capital*, p. 20.

<sup>77</sup> Friedman, *The Lexus and The Olive Tree*, p. 158.

<sup>78</sup> Francis Fukuyama, State-Building, *Governance and World Order in the 21<sup>st</sup> Century* (Cornell University Press, Ithaca, New York, 2004), p. 5.

<sup>79</sup> *Ibid.*, p. 7; In a similar way, Friedman explains that “the trick for governments today is to get the quality of their states up at the same time that they get the size of their states down. (...) Because less government without better government is really dangerous”. Friedman, *The Lexus and The Olive Tree*, pp. 158, 159.



the strengthening and building of state capacities in developing countries, but in their decline or even destruction. This occurs because the main intention of the international community is to provide, through NGOs and the private sector, services and goods to the country in need. That approach can give satisfactory results in the short-term, because it bypasses local governments, which are often corrupt and ineffective. However, once the foreign aid programs are over, the country is left with atrophied state institutions unable to function independently.<sup>80</sup> That is the reason why successful programs have to be idiosyncratic, using local knowledge to create local solutions, and not subject to broad generalization.<sup>81</sup> Prescribed solutions and best practices cannot produce desirable results without involving context-specific information. Although some areas of public sector are, by their nature, more liable to foreign formal modeling (e.g., central banking), many more sectors require delicate local approaches (e.g., education, law, social security).<sup>82</sup>

Market-oriented reforms cannot be implemented and cannot produce desirable results in countries which have not established the principle of ‘rule of law’. However, ‘rule of law’ as a foundation for any democratic country requires not just the existence of norms and rules, but also strong and effective institutions which will enforce and safeguard those rules.<sup>83</sup> Only with strong institutions can the state provide public goods which the market cannot or has no interest to provide, remedy inevitable market failures, and help and support groups of people who are more vulnerable or less equipped for the market-game.<sup>84</sup> Therefore, “public institutions need to be the vehicles by which leaders take public responsibility for the public interest. Otherwise, markets determine the public interest, which manifestly does not work, especially in finance”.<sup>85</sup>

In addition, pundits around the world started to abandon the belief that the private sector takes the necessary measures to correct and cure problems in societies. In the wake of the great financial crisis of 2008, the nation-state and its institutions have been perceived as the main instruments for solving widespread social problems. That said, we do not imply that the nation state should take over all functions previously reserved and performed by the free market. We do suggest, however, that free mar-

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<sup>80</sup> Similar: Fukuyama, *State-Building*, pp. 39–42.

<sup>81</sup> James C. Scott, *Seeing Like a State: How Certain Schemes to Improve the Human Conditions Have Failed* (Yale University Press, New Haven, CT), quoted in Fukuyama, *State-Building*, p. 82.

<sup>82</sup> Fukuyama, *State-Building*, pp. 43, 84.

<sup>83</sup> *Ibid.*, p. 59.

<sup>84</sup> Wolf, *Why Globalization Works*, p. 61.

<sup>85</sup> Colin I. Bradford, Johannes F. Linn, “A Message for the Ministerial Meetings: Reform the IMF or Create a New Global Agency, But Do Something”, *The Brookings Institution*, (posted on October 9, 2008), p. 1.

ket initiatives should be scrutinized and controlled with effective regulatory oversight, especially in the financial sector, in order for countries to prevent and avoid further crises.

Moreover, the private sector and NGOs need strong states, because only states have legitimate coercive powers to provide and safeguard fertile ground for the activities of all actors. “Global capital still – in fact, more than ever – needs a closely regulated and predictable social, political and legal order”, in short “global capital needs local states”.<sup>86</sup> This is also true for international organizations, since they “gain their legitimacy and authority from the states that belong to them.”<sup>87</sup> Nevertheless, a strong state does not equate to a centralized state. On the contrary, all decisions in all countries should be made by levels of government no higher than that necessary to perform a given function; this is known as the principle of subsidiarity. That approach can ensure that all decisions are made by those actors which are better informed about particular issues and prepared to respond and adapt to certain types of changes.<sup>88</sup>

We further suggest that states with strong institutions show two main features: they achieve their public goals despite and over the pressures of powerful social groups (‘autonomous power’),<sup>89</sup> and their institutions are highly adaptive to changing environments. This second characteristic is usually described as ‘transformative capacity’ and has become an important advantage of countries in the globalized world.<sup>90</sup> Actually, their response in the time of financial crisis and economic turmoil largely

<sup>86</sup> Wood, *Empire of Capital*, p. xi, 155; Wood continues by saying that, “capitalism needs stability and predictability in its social arrangements. The nation-state has provided that stability and predictability by supplying an elaborate legal and institutional framework, backed up by coercive force, to sustain the property relations of capitalism, its complex contractual apparatus and its intricate financial transactions”. *Ibid.*, p. 17.

<sup>87</sup> *Ibid.*, p. 319; In another article, Wolf emphasizes that, “the bedrock of international order is territorial state with its monopoly on coercive power within its jurisdiction”. Martin Wolf, Will the Nation-State Survive Globalization?, in *Globalization: Challenges and Opportunity*, p. 108.

<sup>88</sup> Fukuyama, *State-Building*, pp. 67 – 69; However, decentralization requires a delicate approach. Countries need to be centralized first in order to induce decentralization. Uncontrolled decentralization, can just make the situation in some countries worse.

<sup>89</sup> This characteristic is emphasized, for instance, by Gourevitch, Skocpol, and Zysman, quoted in Weiss, *The Myth of the Poweless State*, p. 27, 31; Many times, special interests have acted selfishly and contradictory to the nation’s general welfare (for instance, in the cases of Enron, WorldCom, Arthur D. Anderson and subprime mortgage crisis). See: Warren, *Administrative Law in the Political System*, p. 85; Without ‘autonomous power’ state can easily be ‘captured’ by special interest groups and powerful individuals. Serbia, at the moment, is a very good example for that.

<sup>90</sup> Weiss defines transformative capacity as “the ability (of the state – M. D.) to coordinate industrial change to meet the changing context of international competition”. For broader discussion on this topic, see: Weiss, *The Myth of the Poweless State*, pp. 4–40.

depends on this adaptive ability. Friedman emphasizes this aspect by saying that “countries that have built up sophisticated, honest and credible financial and legal infrastructures (...) are much better positioned to fend off speculative attacks on their currencies, are much better able to withstand sudden outflows of capital (...), and are much faster at taking steps to minimize their impact”.<sup>91</sup>

In short, globalization needs strong (autonomous and adaptable), effective, and decentralized states, with an established principle of rule of law and with a limited scope of necessary state functions. However, the current form of globalization does not provide (or even undermine) ground for such states and consequently the whole process of globalization is jeopardized.

#### 4. CONCLUSION

The nation-states no longer play a unique and exclusive role in modern societies because they have had to share powers and responsibilities with increasingly important non-state actors: the civil society and the private sector. In addition, the unprecedented military and economic power of the U.S. and the growth of worldwide networks of interdependence, have prevented other states, and their leaders, from being absolutely sovereign on their territories. However, nation-states have not lost their role or reason for being. On the contrary, there is a need, more than ever, for strong states with effective institutions to serve as guarantors of processes in the contemporary world.

States with strong institutions show two main features: they achieve their public goals despite and over the pressures of powerful social groups (‘autonomous power’), and their institutions have the ability and strength to act in a changed environment and to adjust to the new circumstances (‘transformative capacity’). Unfortunately, the current form of globalization does not provide firm ground for such states and, because of that, the whole process is jeopardized. The biggest paradox that globalization faces today, which undercuts its own foundation, can be summarized as follows: globalization is decreasing the authority and strength of the nation-state as an obstacle to free trade, although a strong state (which does not mean an extensive state) is a precondition for free flows of capital and people.

Globalization presents opportunities for economic growth and the influx of foreign investments. Nevertheless, the benefits of globalization are distributed unevenly, which undermines the very system of globalization, making it unsustainable in its current form. In short, developing

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<sup>91</sup> Friedman, *The Lexus and The Olive Tree*, p. 162.

countries, with their weak institutions, are not capable of seizing the opportunities offered by globalization. Therefore, the building and strengthening of public institutions in those countries would turn the whole process in the right direction.

In the wake of great financial crisis of 2008, the nation-state and its institutions have been perceived as the main instruments for solving widespread social problems. Whether they will live up to those expectations is yet to be seen.