

## Introduction: States under Siege

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This book is about how countries in the middle of the global power hierarchy confront the loss of control over their own futures through their experiences with globalization. It is about how people are governed within nations at a time when external forces have rendered existing institutions and practices inadequate and about how nations have accommodated new international powers in distinct ways. But it is also about the choices still to be made and what these choices will mean for democratic government as a global regulatory regime unfolds.

### **Globalization, globalism, and global governance**

No word is currently more overworked than ‘globalization’. It can describe many kinds of changes in the world, such as the inter-continental movements of peoples, the increasing interdependence of economies, the international transmission of diseases, or the transnational mobilization of criminal or terrorist organizations. But mostly the term has economic, ideological, and political meanings. Among political economists, *globalization* refers mainly to economic transformations that link together formerly separate national economies; a linking that is increasingly shaped by international mechanisms of governing. Its driving force is generally thought, by conventional economic analysis, to be integrally related to the trajectory of capitalism itself, although twentieth-century technological advances in computerization have accelerated the trend by enabling capital markets, production processes, and distribution systems to link the world in hundreds of nearly seamless corporate systems.

*Neo-liberal globalism*, the ideas that have conceptualized and rationalized these economic movements, has become a paradigm preaching a specific liberal doctrine of transformation. Often referred to as the ‘Washington consensus’, its notions of constraining governments in order to liberate markets is based on the American model of development and became a monolithic system of thought prescribing one formula for how the world’s economic systems should work. It is also backed up by American military might that has been used on occasion to eradicate rival models. Enforced by such multilateral financial institutions as the International Monetary Fund and the World Bank, over which the US government exerts considerable influence, the Washington consensus became the template for economic and political deregulation in nation-states throughout the world, as though it would equally benefit all countries — from the richest state in the core to the poorest nation on the periphery.

Building on the framework of international financial institutions established after World War II to assure currency stability, regulate capital flows, and promote international trade, neo-liberal globalism has become codified, albeit so far in a fairly primitive form, in international economic law in order to establish new modes of transnational regulation to meet the needs of international capital. The primary objective of the new regulatory regimes is to create markets, and in doing this the focus for regulation is on the actions, or regulatory powers, of the state.

The European Community, which had evolved as a continental system of governance dedicated to preserving and promoting its members’ traditions of socially responsible capitalism, moved in the 1980s towards a more market-centred, less regulated European Union (EU) to which was added a currency union. A truly continental governance regime was inaugurated for North America in 1994 when the bilateral Canada-United States Free Trade Agreement (CUFTA) was broadened to include Mexico in the North American Free Trade Agreement (NAFTA), which strengthened the rights of corporations operating across national boundaries. A year later almost a decade’s worth of tortuous negotiations bore fruit with the creation, from the modest General Agreement on Tariffs and Trade (GATT), of the powerful World Trade Organization (WTO). The EU, NAFTA, and the WTO are the leading institutions comprising the *global governance* that, in turn, constitutes the political face of economic globalization and its ideology, neo-liberal globalism.

### **Global governance and the semi-periphery<sup>1</sup>**

This book shows how Australia, Canada, Mexico, and Norway are affected by neo-liberal globalism and its counterpart

institutions of global governance. Diverse though they are, these four countries share the characteristic of being closely integrated into the global economic order in a largely subordinate but partly autonomous position. While considerable analytical efforts have been expended to understand the effects of globalism on both the most and the least powerful nations in the world, the medium-sized powers, which are the focus of this book, have not been the subject of extensive scholarly efforts to conceptualize their position in the world order. They have, to be sure, been studied individually, and have often been described as junior partners, middle powers, hinterlands, dependencies, go-between nations, satellites, or staple-based economies – to list some of their monikers. Researchers trying to pinpoint their special status have noted they enjoy less autonomy than countries at the metropolitan centres of the power system, but have more political muscle and have achieved more economic ‘development’ than the most destitute states. Suspended somewhere between the very strong and the very weak, they act both as objects and as subjects. They have responded – as objects of influence – to international stimuli generated by metropolitan countries. As subjects, they have also exploited for their own benefit economic or political relationships with weaker countries and with their own indigenous people.

The conventional understanding of semi-peripheral states is based on notions developed in analyses of dependency (Wallerstein 1985). While identifying states in the core and periphery was fairly easy – the former being rich and the latter being poor – the distinguishing economic features of each varied considerably. One criterion related them to a range of commodities, with core countries producing industrial goods and peripheral countries exporting primary products. In this optic, semi-peripheral countries were those that had a balance of both types of production (Chase-Dunn 1990). However, this distinction does not capture the changes that have occurred as service industries and, more specifically, high-technology sectors have begun to determine the direction of the world economy. This and the spectacular rise of large transnational corporations made the economic distinctions between resource-based and industrial-based nations less clear-cut, particularly in an age where corporate ability to shift production between nations also shifts the power structures between nations.

The notion of semi-periphery focuses attention not just on the situation of dependency but also on how to overcome it. It affirms that some countries enjoy a certain measure of power that allows them a more autonomous relationship with the core. Dependency theorists tended to concentrate on how forms of subordination and exploitation changed as the world’s capitalist economies became more integrated (Arrighi 1985). This approach was crucial for understanding the dynamics of power in an international context (Packenham 1992), although it seemed to condemn poor countries to perpetual poverty without offering them a means (other than revolution) to bring about substantial change.

Semi-periphery is a more dynamic concept because it suggests the possibility of movement – for instance from the periphery to the semi-periphery, as occurred at least with Mexico and with the Asian economies in the last quarter of the twentieth century. Our question in this book is whether such upward movement characterizes the current trajectory of globalization. As Satoshi Ikeda shows in Chapter 14, the overwhelming change in the position of countries throughout the world in the past twenty years, as measured by per capita national income, has been from the semi-periphery to the periphery. More countries are poor and more countries have less power than ever.

Since the concept of the semi-periphery is not as easily quantifiable as ‘core’ and ‘periphery’, it is more helpful to locate the economic and political power of semi-peripheral countries on a continuum. The four countries that are the subject of this book are very different in appearance but they share, in varying degrees, a history of being subjected to the influences of powerful core countries. In response, they developed policies aimed at achieving more political autonomy, a more diversified economy, and a more socially equitable distribution of incomes. However their semi-peripherality is seen – whether in social, cultural, economic, or spatial terms – Australia, Canada, Mexico, and Norway have generated both the consciousness of their subordination and the means of resisting it. In this way they are differentiated from the core, which may lack the consciousness that anything should be different, and the periphery, which may lack the required means to resist what is happening.

The new generation of international institutions – the WTO, EU, and NAFTA – have changed the conditions under which states must govern themselves. Usually these shifts in national power are examined either from the perspective of core countries in the ‘North’ or from that of the periphery in the ‘South’. By studying globalization from the perspective of countries on the semi-periphery, we hope to generate insights on the political economy of governance under the conditions of globalization that cannot be obtained from the existing literature.

One theme is to explain what the new institutional contexts created by globalization mean as conditioning frameworks for countries in the semi-periphery. Arising from this, the second theme explores what opportunities for influence and change are available in the semi-periphery. While neither Australia nor Canada, nor Mexico nor Norway is a major force constructing the world order under globalism, each country is experiencing a process of reconstruction. Since the construction of a global society is just beginning, this process’s tensions create a fluid situation that provides these countries with scope for some influence over the centre and some autonomy within their own frontiers. So while our authors focus on what has happened and the constraints

imposed on states in the semi-periphery, they also indicate the possibilities for the future as new and different kinds of political spaces are created through global change. Both individually and collectively, our four cases could, with political will, pursue policies unique to their own needs and goals.

## The contents

The four countries in this study have very different relations to the centres of power: Canada and Mexico are intimately tied to the United States of America. Norway is both more closely integrated with the EU and maintains considerably more autonomy in its relationship with its centre than do Canada and Mexico. Australia, while nominally more autonomous than the other three, has a precarious relationship with the centre and tends to be marginalized in unique ways.

The book begins with neither markets nor states, but people. In 'Globalization and the Social Question' (Chapter 2), Janine Brodie sets the context for examining national responses to global governance by raising the question of *globality*. Globality is the transnational social space that has been created by the failure of the neo-liberal state to resolve the problems of solidarity and cohesion. The social dislocations that arise from globalization make it imperative for governance to focus on human security. Establishing goals for social well-being must transcend the current fixation on short-term objectives of economic efficiency, capital mobility, and the creation of greater markets.

The next eight chapters provide paired discussions of a number of issues in our four semi-peripheral countries. Given the broad range of issues raised by our problematic, we have not attempted a parallel discussion of exactly the same issue in each country. Rather, each chapter, even when dealing with one country, also examines a specific problem. For instance, Øyvind Østerud (Chapter 3, 'Globalization in Norwegian: Peculiarities at the European Fringe') concentrates on how Norway, as a rich, semi-peripheral country, is affected by globalization and how decision-makers and political factions are responding to its major challenges. The relatively recent debate about globalization in Norway is set in the context of the constraints that globalization has imposed on this country's foreign policy, an issue not analysed elsewhere in the book. Østerud's assessment is that Norway under globalism will be shaped both by its affluence and by the dilemmas and ambiguities that have long been inherent in Norway's relations to the outside world. Ultimately the issue of access to resource rents will determine Norway's future under globalism.

Dag Harald Claes and John Erik Fossum in Chapter 4 ('Norway, the EEA, and Neo-liberal Globalism') examine the deeply intrusive nature of their country's ongoing relationship with the European Union by documenting the functional policy areas where the Scandinavian outsider has been most influenced. While some EU decisions are not legally binding on Norway, they still influence the path Oslo has consistently chosen to follow. Many other regulations made in Brussels automatically take effect in Norway, thus compromising long-practised democratic traditions. The resulting slide towards neo-liberal policies demonstrates the power of the centre even over a wealthy semi-peripheral country like Norway, despite its having governments that were never committed to this ideology.

Mexico is by far the least affluent of our four states (see Ikeda, Chapter 14), but it has much in common with Canada in its close and subordinate relationship with the US. Teresa Gutierrez-Haces in Chapter 5 ('The Rise and Fall of an "Organized Fantasy": The Negotiation of Status as Periphery and Semi-periphery by Mexico and Latin America') places Mexico's encounter with neo-liberalism and continental free trade in the broader geographical and historical context of the fundamentally different import substitution strategy developed throughout Latin America following World War II. She details the consequences of rejecting an approach which enabled countries in Latin America to pursue autonomous political directions in favour of the neo-liberal policies that accompanied the open, export-dependent economy that was shaped by NAFTA.

Within this framework, Alejandro Alvarez in Chapter 6 ('Mexico: Relocating the State within a New Global Regime') argues that the international projection of Mexico as a successful model of neo-liberal restructuring leading to true democracy is based on deliberate misinterpretations that need clarification. He shows how the 'structural adjustment programmes' initiated in the 1980s became locked in with NAFTA and deepened with the democratic transition. Alvarez analyses the nature and scope of the new democracy but stresses its inability to change the economic model that has been imposed on Mexico. He explains the recurrence of financial crises, addresses the costs paid by Mexicans for 'free trade' and export oriented industrialization, and concludes with an analysis of the perverse dynamic of a de-statization strategy that is championed by the Mexican state itself.

Australia has a decidedly different relationship with the centre than do the other countries in this volume. Dick Bryan in Chapter 7 ('Australia: Asian Outpost or Big-time Financial Dealer?') shows how the Australian economy's integration within the global economy can be presented through two distinct and contrasting sets of characteristics. One image situates Australia on the edge of Asia, focusing on the volume of trade and industrial composition that results from this. The other optic emphasizes Australia's financial and investment links to Europe and North America. Bryan characterizes Australia as a state in search of its own economy. Unlike the other semi-peripheral countries in this study, which are highly conditioned by governance frameworks

established by the centre, Australia's state agenda nonetheless facilitates corporate agendas, rather than steering them.

Assuming the path of least resistance to globalization seems to permeate Australia's governance structure. Ray Broomhill in Chapter 8 ('Australia: Neo-liberal Globalism and the Local State') explores how laissez-faire ideology has affected government and society at the sub-national level of the South Australian state. He shows that the most common political response to powerful global economic and political forces restructuring the local level is to adopt neo-liberal policies, which he sees as a temporary 'institutional fix' that will be unable to provide a stable framework for the future.

Although Canada is considerably wealthier than Mexico, it shares with Mexico export-oriented development strategies and a decidedly subordinate relationship with its main trading partner, the US. The economic and public policy decisions of both countries are highly conditioned by the trading agreements between the countries. While ostensibly these international agreements provide a neutral, rules-based system that all must follow, the tremendous disparity between the political and economic power of the US makes these agreements highly asymmetrical in practice. Stephen Clarkson in Chapter 9 ('Global Governance and the Semi-peripheral State: The WTO and NAFTA as Canada's External Constitution') shows how the WTO and NAFTA institutionalize constraints for Canada. He examines the state as 'rule-taker' by showing the way that international trade rules and the decisions made by their dispute settlement processes affect the Canadian state's capacity to exercise regulatory power over its national market. But he also examines Canada's role as 'rule-maker' in its avid participation in international bodies that ultimately establish the rules that constrain its own governments.

In Chapter 10 ('International Forces Driving Electricity Deregulation in the Semi-periphery: The Case of Canada') Marjorie Griffin Cohen examines a specific case of Canadian public policy – the privatization of electricity – to show how regulatory changes in the major power (the US) are a very powerful force for change in Canada. She argues that the relatively small but lucrative export market coupled with US regulatory pressure and NAFTA's rules provide the impetus for shifting from a public system of electricity production that served the country well to an unstable regime of deregulation.

The next section of the book, 'Dealing with the Centre', presents three chapters that explore how the semi-periphery deals with the core. Paul Bowles in Chapter II ('Money on the (Continental) Margins: Dollarization Pressures in Canada and Mexico') assesses how Canada and Mexico confront the pressure coming from certain business sectors to enter into a currency union with the United States. Increasing trade with the US and the low value of the Canadian dollar bolster those who argue that Canada's real income would soar and the large gap between the two countries would shrink. But others in both countries' business sectors see a flexible exchange rate as a useful mechanism for resource-based economies to adjust to the external shocks of commodity markets. Ultimately, Bowles argues, dollarization would further entrench the power of the US in continental decision-making.

David Schneiderman in Chapter 12 ('Taking Investments Too Far: Expropriations in the Semi-periphery') focuses on the extraordinary provisions in NAFTA's Chapter II, which empowers American corporations to attack as 'expropriation' Canadian or Mexican government regulations that impinge on their profitability. The ability of foreign corporations to sue states for damages is unique in international trade law and has been a powerful tool constraining the ability of both Canadian and Mexican governments to uphold a wide variety of legitimate environmental protection policies. This chapter shows not only how all levels of government have been challenged but also how they have tried to contest the new power of the corporate sector.

Stephen McBride and John Erik Fossum in Chapter 13 ('The Rule of Rules: International Agreements and the Semi-periphery') compare the European Union and NAFTA as alternative models, the former more progressive, and the latter more regressive, for the economic integration of the semi-periphery. In North America the disempowerment of states in the semi-periphery has been more severe than it has been through the ED. This chapter argues that the EU, while initially launched as an economic-type organization, did not have a neo-liberal agenda and did not propound neo-liberalism as its ideology. While this may change in the future, the EU has the capacity to develop market-correcting features and the power to deal with social issues.

The book focuses on relative state power as the common defining feature of the semi-periphery. But this is not to deny the significance of economic performance itself for determining where countries stand in relationship to each other and in relationship to power. Our last section, 'Comparing Economic Performance', presents a synthesis of the main economic indicators of the four countries. In Chapter 14 ('Zonal Structure and the Trajectories of Canada, Mexico, Australia, and Norway under Neo-liberal Globalization') Satoshi Ikeda places the four countries in the context of all national economies' results over the two decades driven by neo-liberal globalism. With their gross domestic product per capita measured in relationship to the American standard, only Norway improved its position, moving up to status as a central economy because of its vast oil-generated wealth. But measured by the criterion of purchasing power parity, we find that the four economies under review in this book have had trouble holding their own – even Norway. Norway's astonishing prosperity aside, it becomes clear that, by either standard, neo-liberal globalism has not proven to be the panacea that its proponents promised would raise the semi-periphery to new levels of well-being.

In this way, the impersonal data provided by the International Monetary Fund's statisticians support the general theme developed by the previous twelve chapters. Their message says loud and clear that the crusade started in 1979 for the United Kingdom by Margaret Thatcher, brought to Washington in 1980 by Ronald Reagan, universalized in the supraconstitutional legal orders established by the WTO and NAFTA, and championed to a greater or lesser extent by economic and political elites in our four semi-peripheral states, has failed to deliver notable improvements in economic welfare, social cohesion, or political democracy.

But our story does not end with failure. It ends with the need for scholars and for citizens to consider how to construct alternatives to a dogma that, for all its manifest deficiencies, is still deeply entrenched as the paradigm guiding both supranational governance and national governments. All of the authors stress that neo-liberal globalism is still being constructed, with crucial decisions about future institutions and the power of the state still to be made.

Ideationally a social-democratic post-globalist intellectual system would call for a rebalancing of global governance to give at least equal weight to environmental, labour, and human rights as the WTO gives to investment and commercial priorities. While nostalgia for a nationally based Keynesianism is understandable, it is not viable when capital has already freed itself to a considerable extent from national regulatory control. A global regulatory regime is another matter, particularly if it is one that is accompanied by a redistributive policy. Should global elites be pushed by their publics to support enforceable norms that mandate efforts to pull nations up to high standards, then a race to the bottom characterized by social and environmental dumping could be brought to an end by international cooperation. Optimism about the future lies in our individual hands, in our national choices, and in our solidarity across frontiers with those in all countries who are determined to repair the damage wrought for a quarter of a century in the name of unfettered markets.

## Note

1. Much of the information for this section is from an unpublished research paper prepared for the globalism project by Karine Peschard, 'Rethinking the Semi-Periphery: Some Conceptual Issues'.

## References

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