

Territory and Territoriality in the Global Economy

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abstract: This is part of a larger research project on governance and accountability in the global economy. What is the impact of economic globalization on the territorial jurisdiction, or more theoretically, the exclusive territoriality of the nation-state? This is the organizing question in the article; it is an effort to respond critically to two notions that underlie much of the current discussion about globalization. One is the zero-sum game: whatever the global economy gains, the national state loses and vice versa. The other is that if an event takes place in a national territory it is a national event, whether a business transaction or a judiciary decision. I argue that, on the contrary, national states have been deeply involved in the implementation of the global economic system producing the necessary legal encasements for this system; and, second, that a global transaction may well take place inside a national territory. My working hypothesis is that while globalization leaves national territory basically unaltered, it is having pronounced effects on the exclusive territoriality of the national state – that is, its effects are not on the boundaries of national territory as such but on the institutional encasements of that national territory.

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The general question organizing this article concerns the impact of economic globalization on the territorial jurisdiction, or more theoretically, the exclusive territoriality of the nation-state. It is an effort to respond critically to two notions that underlie much of the current discussion about globalization. One is the zero-sum game: whatever the global economy

gains, the national state loses and vice versa. The other is that if an event takes place in a national territory it is a national event, whether a business transaction or a judiciary decision.

Both of these notions presuppose a unitary spatio-temporal concept of sovereignty and its exclusive institutional location in the national state. It also can be seen as an analysis of economic globalization that rests on standard theories about sovereignty and national states. But a less state-centered analysis of economic globalization allows us to capture the historical specificity of this concept of sovereignty and it allows us to recognize the possibility that certain components of sovereignty have under current conditions been relocated to supra- and subnational institutions, both governmental and non-governmental institutions, and both old and newly formed institutions.

The proposition that I draw out of this analysis and my argument in this article is that we are seeing processes of incipient denationalization of sovereignty – the partial detachment of sovereignty from the national state. The particular forms of power and legitimacy that we have associated with national sovereignty have been transformed, but only partly. The larger system of political and economic power that has evolved over the last decade has secured some forms of this power and legitimacy for its own purposes. It would seem that sovereign power remains the single most efficient way of securing legitimate authority, even when it entails overriding certain elements of national state sovereignty as is the case, for instance, with the World Trade Organization (WTO). Whether this denationalizing of sovereignty signals a destabilizing of the meaning, historically constructed, of sovereignty (see Weber, 1996) or a restabilizing of a new meaning is, for me, still an open question for research and theorization. And whether this represents a reconfiguring of the inside–outside duality as analyzed in Walker (1993) is a similarly open question.¹

Elements for a New Conceptualization

My argument rests on an understanding of economic globalization that is quite different from many of the standard accounts. There are two key propositions organizing my discussion. One of these is that the global economy needs to be produced, reproduced, serviced and financed. It cannot be taken simply as a given or merely as a function of the power of multinational corporations and financial markets. There is a whole vast array of highly specialized functions that needs to be ensured. These have become so specialized that they can no longer be contained in corporate headquarter functions. Global cities are strategic sites for the production of these specialized functions to run and coordinate the global economy. Inevitably located in national territories, these cities are the organizational

and institutional locations for some of the major dynamics of denationalization. While such processes of denationalization – for instance, certain aspects of financial and investment deregulation – are institutional and not geographic, the geographic location of many of the strategic institutions – for instance, financial markets and financial services firms – means that these processes are embedded geographically.

The second proposition, partly connected to the first, is that the global economy to a large extent materializes in national territories. Its topography is one that moves in and out of digital space and national territories. This requires a particular set of negotiations that have the effect of leaving the geographic boundaries of the national state's territory unaltered, but do transform the institutional encasements of that geographic fact, that is, the state's territorial jurisdiction or, more abstractly, exclusive territoriality.

Precisely because global processes materialize to a large extent in national territories, many national states have had to become deeply involved in the implementation of the global economic system and have, in this process, experienced transformations of various aspects of their institutional structure. This would mean that the global economy and the national state do not relate to each other as in a zero-sum situation. My working hypothesis is that while globalization leaves national territory basically unaltered, it is having pronounced effects on the exclusive territoriality of the national state – that is, its effects are not on territory as such but on the institutional encasements of the geographic fact of national territory. Economic globalization entails a set of practices which destabilizes another set of practices, namely some of the practices that came to constitute national state sovereignty.

Implementing today's global economic system in the context of national territorial sovereignty required multiple policy, analytic and narrative negotiations. These negotiations have typically been summarized or coded as 'deregulation'. There is much more going on in these negotiations than captured by the concept of 'deregulation'. The encounter of a global actor – firm or market – with one or another instantiation of the national state can be thought of as a new frontier. It is not merely a dividing line between the national economy and the global economy. It is a zone of politico-economic interactions that produce new institutional forms and alter some of the old ones. Nor is it just a matter of reducing regulations. For instance, in many countries, the necessity for autonomous central banks in the current global economic system has required a thickening of regulations in order to delink central banks from the influence of the executive branch of government – and from the influence of deeply 'national' political agendas. The case of the central banks also illustrates another key aspect in the process whereby national economies accommodate a global

economic system: 'national' institutions, that is central banks, become home to some of the operational rules of the global economic system. Further, the fact that we cannot simply reduce these negotiations to the notion of deregulation is also illustrated by the privatization of public sector firms. Such privatization is not just a change in ownership status, but also a shift of regulatory functions to the private sector where they re-emerge under other forms, most notably, private corporate legal and accounting services. In this shift the emperor has clearly changed clothes.

Economic globalization is indeed a major transformation in the territorial and institutional organization of economic activity and of politico-economic power. But to posit, as is so often done, that economic globalization simply has brought with it a declining significance of the national state is inadequate. Neither is it adequate simply to focus on the fact of the often minimal share of foreign inputs in national economies: in most countries the share of foreign in total investment, the share of international in total trade, the share of foreign in total stock market value, is very small. However, to infer from this that economic globalization is not really a significant issue misses a crucial feature of this current phase of economic globalization: the fact that most global processes materialize in national territories and do so to a large extent through national institutional arrangements, from legislative acts to firms and, thereby, are not necessarily counted as 'foreign'. Conversely, for that same reason we cannot simply assume that because a transaction takes place in national territory and in a national institutional setting it is *ipso facto* national. In my reading, the imbrications of global actors and national institutions is far more ambiguous. One key implication is that economic globalization has actually strengthened certain components of national states, notably those linked to international banking functions, such as ministries of finance, even as it has weakened many others.²

How does the globalization of national economies reconfigure the territorial exclusivity of sovereign states, and what does this do to sovereignty and to a system of rule based on sovereign states? Has economic globalization over the last ten to 15 years contributed to a major institutional discontinuity in the history of the modern state and the modern inter-state system and, particularly, in the system of rule?

We can begin to address these questions by examining major aspects of economic globalization that contribute to what I think of as a new geography of power. One of these components concerns the actual territories where much of globalization materializes in specific institutions and processes. And the question here is, then, what kind of territoriality is this? The second component of the new geography of power concerns the ascendance of a new legal regime to govern cross-border economic transactions. One can see here at work a rather peculiar passion for various

kinds of 'legality' driving the globalization of the corporate economy. There has been a massive amount of legal innovation around the growth of globalization. The third component of the new geography of power is the fact that a growing number of economic activities are taking place in electronic space. This growing digitization of economic activity, particularly in the leading information industries such as finance and specialized corporate services, may be contributing to a crisis in control that transcends the capacities of both the state and the institutional apparatus of the economy. The speed of transactions made possible by the new technologies is creating orders of magnitude, for instance in the foreign currency markets, that escape the governing capacities of private and government overseers.

Adding these three components of the new geography of power to the global footlooseness of corporate capital reveals aspects of the relation between global economy and national state which are not adequately, or usefully, captured in the prevalent notion of a duality global/national. This duality is conceived of as a mutually exclusive set of terrains where what the global economy gains the national economy or the national state loses. It is this type of dualization that has fed the proposition of a declining significance of the national state in a globalized economy. Such a dualistic perspective also resists the recognition that we may be dealing with a new bundle of practices that are stabilizing new meanings of sovereign power and constituting new institutional locations for components of this power (see Sassen, 1996: Chs 1 and 2).

Let me elaborate now on these three components of the new geography of power. I begin with the question of the spaces of the global economy, or the strategic geography of globalization or, more conceptually, the particular form of territoriality we see taking shape in the global economy today.

My starting-point is a set of practices and institutions: global financial markets; ascendance of Anglo-American law firms in international business transactions; the Uruguay round of GATT and the formation of the WTO; the role of credit rating agencies in international capital markets; and various provisions in GATT, NAFTA and other free trade agreements.

Strategic Spaces: The Ascendance of the Subnational

Much attention has gone to the dispersal trends that are associated with globalization and telematics – the off-shoring of factories, the expansion of global networks of affiliates and subsidiaries and the formation of global financial markets. What is left out of this picture is the other half of the story. This worldwide geographic dispersal of factories and service

outlets takes place as part of highly integrated corporate structures with strong tendencies toward concentration in control and profit appropriation.³ For instance, it is well known that a very high share, about 40 percent, of international trade is actually intra-firm trade, and, according to some sources, it is even higher than that.⁴

There are two major implications here for the question of territoriality and sovereignty in the context of a global economy. First, when there is geographic dispersal of factories, offices and service outlets in an integrated corporate system, particularly one with centralized top-level control, there is also a growth in central functions. One way of saying it is that the more globalized firms become, the more their central functions grow – in importance, in complexity and in number of transactions.⁵

We can make this more concrete by considering some of the staggering figures involved in this worldwide dispersal and imagining what it entails in terms of coordination and management for parent headquarters. For instance, in the early 1990s US firms had over 18,000 affiliates overseas; not so well known is the fact that German firms have even more affiliates, 19,000, up from 14,000 in the early 1980s. Or that firms such as Ford Motors, GM, IBM and Exxon have well over 50 percent of their workforce overseas.⁶ All of this represents a massive task of coordination and management for the firm involved. Let me clarify promptly that a lot of this has been going on for a long time; and, second, that this dispersal does not proceed under a single organizational form – rather, behind these general figures lie many different organizational forms, hierarchies of control and degrees of autonomy.

Of importance to the analysis here is the dynamic that connects the dispersal of economic activities with the ongoing weight and often growth of central functions. In terms of territoriality and globalization this means that an interpretation of the impact of globalization as creating a space economy that extends beyond the regulatory capacity of a single state is only half the story; the other half is that these central functions are disproportionately concentrated in the national territories of the highly developed countries.

I should perhaps clarify that by central functions I do not only mean top-level headquarters; I refer to all the top-level financial, legal, accounting, managerial, executive and planning functions that are necessary to run a corporate organization operating in more than one country and, increasingly, in several countries. These central functions are partly embedded in headquarters but also, in good part, in what has been called the corporate services complex, that is, the network of financial, legal, accounting and advertising firms that handle the complexities of operating in more than one national legal system, national accounting system, advertising culture, etc., and do so under conditions of rapid innovation

in all these fields. Such services have become so specialized and complex that headquarters increasingly buy them from specialized firms rather than produce them in-house. These agglomerations of firms producing central functions for the management and coordination of global economic systems are disproportionately concentrated in the highly developed countries – particularly, though not exclusively, in the kinds of cities I call global cities. Such concentrations of functions represent a strategic factor in the organization of the global economy, and they are situated right here, in New York, Paris, Amsterdam, and so on.⁷

One argument I am making here is that it is important to unbundle analytically the fact of strategic functions for the global economy or for global operation and the overall corporate economy of a country.⁸ For the purposes of certain kinds of inquiry this distinction may not matter; for the purposes of understanding the global economy, it does. Further, to operate a worldwide network of factories, offices and service outlets, major and minor legal innovations were necessary, a subject I return to later.

Another instance today of this negotiation between a transnational process or dynamic and a national territory is that of the global financial markets. The orders of magnitude in these transactions have risen sharply, as illustrated by the US\$75 trillion in turnover in the global capital market, a major component of the global economy. These transactions are partly embedded in telecommunications systems that make possible the instantaneous transmission of money and information around the globe. Much attention has gone to the new technologies' capacity for instantaneous transmission. But the other half of the story is the extent to which the global financial markets are located in particular cities in the highly developed countries; indeed, the degrees of concentration are unexpectedly high.

Stock markets worldwide have become globally integrated. Beside deregulation in the 1980s in all the major European and North American markets, the late 1980s and early 1990s saw the addition of such markets as Buenos Aires, Sao Paulo, Bangkok, Taipei and so forth. The integration of a growing number of stock markets has contributed to raise the amount of capital that can be mobilized through stock markets. Worldwide market value reached US\$22 trillion in 1999. This globally integrated stock market which makes possible the circulation of publicly listed shares around the globe in seconds is embedded in a grid of very material, physical and strategic places – that is, cities belonging to national territories. Again, as in the case of firms with global operations, major and minor legal innovations were necessary for the deregulation and global integration of stock markets.

The specific forms assumed by globalization over the last decade have created particular organizational requirements. The emergence of global markets for finance and specialized services and the growth of investment

as a major type of international transaction all have contributed to the expansion in command functions and in the demand for specialized services for firms.

A central proposition here is that we cannot take the existence of a global economic system as a given, but rather we need to examine the particular ways in which the conditions for economic globalization are produced. This requires examining not only communication capacities and the power of multinationals, but also the infrastructure of facilities and work processes necessary for the implementation of global economic systems, including the production of those inputs that constitute the capability for global control and the infrastructure of jobs involved in this production. The emphasis shifts to the *practice* of global control: the work of producing and reproducing the organization and management of a global production system and a global marketplace for finance, both under conditions of economic concentration.⁹

The State and the New Space Economy

The analysis presented in the preceding section points to a space economy for major new transnational economic processes that diverges in significant ways from the duality global/national presupposed in much analysis of the global economy.¹⁰ The shrinking capacity of the state to regulate these industries cannot be explained simply by the fact that they operate in 'the global economy' rather than in the 'national economy'. The spatial organization of the leading information industries makes it clear that these are not mutually exclusive spaces. Rather, the globalization of finance and corporate services is embedded in a grid of strategic sites which are partly embedded in national territories. Further, firms which operate globally still require the guarantees of rights of property and contract that they expect within their national territories.

But the analysis of these industries also makes it clear that insofar as transnationalization and deregulation have been key to their growth and distinct contemporary character, these processes have reduced the regulatory role held by the national state until quite recently. This is illustrated by the worldwide pressure experienced by national states to deregulate their financial markets in order to allow integration into the global markets. Thus London saw its 'big bang' of 1984 and Paris saw *le petit bang* a few years later under governments as diverse as the Tories in England and the Socialists in France.¹¹ The declining regulatory role of national states can be quite different between highly developed countries and less developed countries. This is illustrated by the case of the December 1994 Mexican crisis and the different roles played by the US and Mexican governments.

Finally, advanced information industries make it clear that unlike the prior eras of the world's economy, the current forms of globalization do not necessarily contribute to reproduce or strengthen the inter-state system (see note 7). International finance especially reveals the extent to which the forms of internationalization evident in the last two decades have produced regulatory voids that lie beyond not only states but also the inter-state system. This can be illustrated with the case of the foreign currency markets which have reached orders of magnitude that have weakened the regulatory role of central bankers, notably the impact of concerted international action on currency exchange rates.

Some of the features of economic globalization associated with the declining regulatory role of the state are, by now, well known. Globalization has contributed to a massive push toward deregulation across the board in many of the highly developed countries. Aman (1995) notes that though not all industries in a nation are equally subject to intense global competition, the existence of such competition, in general, contributes to an overall political context that encourages domestic regulatory reform in all industries. 'Political movements and regulatory trends do not tend to discriminate among industries once the momentum for certain reforms is underway' (Aman, 1995: 433).¹² The impact of global competition on the domestic politics of regulation goes well beyond the industries in which this competition is most intense. Economic globalization pushes local jurisdictions into the competition for industries that operate nationally and/or transnationally. The possibility of moving from one jurisdiction to another with lower regulatory demands puts downward pressure on regulations across all jurisdictions – the quintessential race to the bottom. Whole countries are now engaged in this competition. (For some recent formulations in what is a vast literature see Bonilla et al., 1999; Bonacich et al., 1994; Bose and Acosta-Belen, 1995; Olds et al., 1999).

For finance and advanced corporate services, globalization is a key feature of their expansion not simply a matter of raising profits and lowering costs as with many manufacturing industries. And reducing the existing regulatory role of states was the necessary mechanism. We have seen country after country in Latin America and Asia deregulate its stock market and other financial markets in order to become integrated into the global financial market. But this is not the end of rules.

New Legal Regimes

Firms operating transnationally need to ensure the functions traditionally exercised by the state in the national realm of the economy, notably guaranteeing property rights and contracts. We need to examine the particular forms of legal innovation that have been produced and within

which much of globalization is encased and framed; and, further, how these innovations interact with the state or, more specifically, with the sovereignty of the state. As with the discussion of territory in the global economy, my beginning point is a set of practices and minor legal forms – micro-histories – which can, however, accumulate into major trends or regimes.

Insofar as economic globalization extends the economy beyond the boundaries of the national state and hence its sovereignty, various guarantees would appear to be threatened. In fact, globalization has been accompanied by the creation of new legal regimes and legal practices and the expansion and renovation of some older forms that bypass national legal systems. Globalization and governmental deregulation have not meant the absence of regulatory regimes and institutions for the governance of international economic relations. Among the most important ones in the private sector today are international commercial arbitration, and the variety of institutions which fulfill rating and advisory functions that have become essential for the operation of the global economy.

Over the past 20 years, international commercial arbitration has been transformed and institutionalized as the leading contractual method for the resolution of transnational commercial disputes.¹³ There has been enormous growth of arbitration centers. Excluding those concerned with maritime and commodity disputes – an older tradition – there were 120 centers by 1991, with another seven created by 1993; among the more recent centers created were those of Bahrain, Singapore, Sydney and Vietnam. There were about 1000 arbitrators by 1990, a number that doubled by 1992.¹⁴ It is in this regard far from a unitary system of justice, and I quote Dezalay and Garth (1995), ‘organized perhaps around one great *lex mercatoria* – that might have been envisioned by some of the pioneering idealists of law’.¹⁵

Another instance of a private regulatory system is represented by debt security or bond rating agencies which have come to play an increasingly important role in the global economy.¹⁶ Ten years ago, Moody’s and Standard and Poor had no analysts outside the US; by 1993 they each had about 100 in Europe, Japan and Australia. In his study of credit rating processes, Sinclair (1994) found that these agencies function as mechanisms of ‘governance without government’.¹⁷ He found that they have leverage because of their distinct gate-keeping functions with regard to investment funds that are sought by corporations and governments. In this regard they can be seen as a significant force in the operation and expansion of the global economy.¹⁸ And as with business law, the US agencies have expanded their influence overseas; to some extent, their growing influence can be seen as both a function, and a promoter, of US financial orthodoxy, particularly its short-term perspective.

These and other such transnational institutions and regimes do raise questions about the relation between state sovereignty and the governance of global economic processes. International commercial arbitration is basically a private justice system, and credit rating agencies are private gate-keeping systems. Along with other such institutions they have emerged as important governance mechanisms whose authority is not centered in the state. Yet they contribute to maintain order at the top, one could say. Does the ascendance of such institutions and regimes entail a decline in state sovereignty? We are seeing a relocation of authority that has transformed the capacities of governments and can be thought of as an instance of what Rosenau has described as governance without government (Rosenau, 1992).

We are also seeing the formation of transnational legal regimes and their penetration into national fields that have hitherto been closed. Further, national legal fields are becoming more internationalized in some of the major developed economies. Some of the old divisions between the national and the global are becoming weaker and, to some extent, neutralized. These transnational regimes could, in principle, have assumed various forms and contents. But they are, in fact, assuming a specific form, one wherein the states of the highly developed countries play a strategic geopolitical role. The hegemony of neoliberal concepts of economic relations with its strong emphasis on markets, deregulation and free international trade has influenced policy in the 1980s in the USA and UK and now, increasingly, also in continental Europe. This has contributed to the formation of transnational legal regimes that are centered in western economic concepts.¹⁹

Dezalay and Garth (1995) note that the 'international' is itself constituted largely from a competition among national approaches. There is no global law.²⁰ Thus the international emerges as a site for regulatory competition among essentially national approaches, whatever the issue – environmental protection, constitutionalism or human rights.²¹ From this perspective 'international' or 'transnational' has become in the most recent period, a form of 'Americanization'.²² The most widely recognized instance of this is, of course, the notion of a global culture that is profoundly influenced by US popular culture.²³ But, though less widely recognized and more difficult to specify, this has also become very clear in the legal forms that are ascendant in international business transactions.²⁴ Through the IMF, the World Bank and GATT this vision has spread to, some would say been imposed on, the developing world.²⁵ The competition among national legal systems or approaches is particularly evident in business law, where the Anglo-American model of the business enterprise and competition is beginning to replace the continental model of legal artisans and corporatist control over the profession.²⁶

The Virtualization of Economic Activity

The third component in the new geography of power is the growing importance of electronic space. I address this only briefly, though there is much to be said (see Sassen, 2000c). I want to isolate one particular issue: the distinctive challenge that the virtualization of a growing number of economic activities presents not only to the existing state regulatory apparatus but also to private sector institutions that are increasingly dependent on the new technologies. Taken to its extreme this may signal a control crisis in the making; this would be a type of control crisis for which we lack an analytic vocabulary.

These are questions of control that have to do with the orders of magnitude that can be achieved in the financial markets thanks to the speed in transactions made possible by the new technologies. The best example is probably the foreign currency markets which operate largely in electronic space and have achieved volumes – a trillion dollars a day – that have left the central banks incapable of exercising the influence on exchange rates that they are expected to have (though may, in fact, not always have had). These are questions of control that arise out of the properties of the new information technologies, notably the immense speed-up of transactions they make possible, rather than out of the extension of the economy beyond the state.

The growing virtualization of economic activities raises questions of control in the global economy that go not only beyond the state but also beyond the notions of non-state-centered systems of coordination that are prevalent in the literature on governance. And they go beyond analyses on the impact of digitization on sovereignty which remain framed by the liberal versus realist theories of the state; this is so even in conceptions that factor in the historicity and variability of sovereignty and acknowledge different logics for its representation (see, for example, the debate on this subject in *The Indiana Journal of Global Legal Studies*, 1999).

The State Reconfigured

In many ways the state is involved in this emerging transnational governance system. But it is a state that has itself undergone transformation and participated in legitimating a new doctrine about the role of the state in the economy. Central to this new doctrine is a growing consensus among states to further the growth and strength of the global economy.²⁷ Many governments now see their responsibilities going beyond foreign policy as traditionally conceptualized and extending into world trade, the global environment and global economic stability (Aman, 1995: 437). An important question running through these different interpretations is whether

the new transnational regimes and institutions are creating systems that strengthen the claims of certain actors (corporations or the large multinational legal firms) and correspondingly weaken the position of smaller players and of states. Ruggie (1993: 143) has pointed out that the issue is not whether such new institutions and major economic actors will substitute for national states but rather the possibility of major changes in the system of states: 'global markets and transnationalized corporate structures . . . are not in the business of replacing states', yet they can have the potential for producing fundamental change in the system of states.

What matters here is that global capital has made claims on national states and these have responded through the production of new forms of legality. The new geography of global economic processes, the strategic territories for economic globalization, had to be produced, both in terms of the practices of corporate actors and the requisite infrastructure, and in terms of the work of the state in producing or legitimating new legal regimes.²⁸ Representations that characterize the national state as simply losing significance fail to capture this very important dimension and reduce what is happening to a function of the global/national duality – what one wins, the other loses. I view deregulation not simply as a loss of control by the state but as a crucial mechanism to negotiate the juxtaposition of the inter-state consensus to pursue globalization and the fact that national legal systems remain as the major or crucial instantiation through which guarantees of contract and property rights are enforced.

There is a larger theoretico-politico question underlying some of these issues which has to do with what actors gain the legitimacy for governance of the global economy and the legitimacy to take over rules and authorities that have been hitherto encased in the national state.

Implications

The theoretical and methodological challenge presented by the current phase of globalization is that the latter entails a transcending of exclusive national territoriality and of the inter-state system, yet it is implanted in national territories and institutions. Hence globalization directly engages two marking features of much of social science: the nation-state as the unit of analysis and the implied correspondence of national territory and national exclusive territoriality.

As has been frequently noted, much of social science rests on the explicit or implicit assumption of the nation-state as the container of social processes. There is, it seems to me, a second common underlying assumption: that exclusive territoriality is the same as national territory. Both of these assumptions describe conditions that have held for a long time, namely the history of the modern state, but are now being partly

unbundled. One of the features of the current phase of globalization is that the fact of a process happening within the territory of a sovereign state does not necessarily mean it is a national process. This localization of the global or of the non-national in what has been constructed as national, does violence to many of the methods and conceptual frameworks prevalent in social science. Developing the theoretical and empirical specifications that allow us to accommodate this is difficult and will be time consuming. But it has started (see, for instance, the effort in this direction by the new critical literature on sovereignty: Biersteker et al., forthcoming; Hall, 1999; Sassen 1996, 2000c; Walker, 1993; Weber, 1996; and on the social sciences, for example, Mazlish and Buultjens, 1993; The Gulbenkian Foundation, 1996; and the newly created journal *Hagar: International Social Science Review*, published at the Ben Gurion University, Israel).

Notes

This is one of a series of articles coming out of my larger research project on governance and accountability in the global economy. The first phase of the larger project was partly published as the 1995 Leonard Hastings Schoff Memorial Lectures (*Losing Control? Sovereignty in an Age of Globalization*; Sassen, 1996). I want to thank the Schoff Memorial Fund and Columbia University Press for their support.

1. This is part of my larger five-year research project 'Governance and Accountability in the Global Economy'.
2. A second important implication, not discussed here, is that insofar as certain components of national states are engaged in the implementation and governing of the global economy, there is a bridge for citizens to exercise some of their powers vis-a-vis the global economy. Clearly, this would require significant innovation and initiative (see Sassen, 1998: Ch. 1).
3. Elsewhere I have examined in great detail what contributes to the importance of centrality in economic systems with immense technological capacities for global dispersal to the most advantageous sites. It is through these information-based production processes that centrality is constituted. But centrality emerges as significant precisely because it is a function of the vast global network of operations of the leading industries in the current phase of globalization. We can say that the global economy materializes in a worldwide grid of strategic places, uppermost among which are major international business and financial centers. We can think of this global grid as constituting a new economic geography of centrality, one that cuts across national boundaries and across the old North-South divide. It signals, potentially, the emergence of a parallel political geography. An incipient form of this is the growing intensity in cross-border networks among cities and their mayors. It is, then,

- precisely the combination of the spatial dispersal of numerous economic activities *and* telematic global integration which has contributed to a strategic role for major cities in the current phase of the world economy (Sassen, 2000a, 2000b).
4. See UNCTAD (various years).
 5. I have elaborated on these issues in Sassen (2000a, 2000b). This process of corporate integration should not be confused with vertical integration as conventionally defined. See also Gereffi (1995) on commodity chains and Porter's (1990) value added chains, two constructs that also illustrate the difference between corporate integration on a world scale and vertical integration as conventionally defined.
 6. More detailed accounts of these figures and sources can be found in Sassen (2000a, 2000b). I should note here that affiliates are but one form of operating overseas. Today there are multiple forms that range from new temporary partnerships to older types of subcontracting and contracting.
 7. Here we see the formation of an economic complex with a valorization dynamic that has properties that clearly distinguish it from other economic complexes whose valorization dynamic is far more articulated with the public economic functions of the state, the quintessential example of the latter being Fordist manufacturing. Global markets in finance and advanced services partly operate through a 'regulatory' umbrella that is not state centered but market centered. This, in turn, brings up a question of control linked to the currently inadequate capacities to govern transactions in electronic space.
 8. These global control and command functions are partly embedded in national corporate structures, but they also constitute a distinct corporate subsector. This subsector can be conceived of as part of a network that connects global cities across the globe. In this sense, global cities are different from the old capitals of erstwhile empires, in that they are a function of cross-border networks rather than simply the most powerful city of an empire. There is, in my conceptualization, no such entity as a single global city as there could be a single capital of an empire; the category 'global city' only makes sense as a component of a global network of strategic sites. The corporate subsector that contains the global control and command functions is partly embedded in this network.
 9. The recovery of place and production also implies that global processes can be studied in great empirical detail: there is a sociology and an anthropology of economic globalization.
 10. Several scholars are working along these new lines in a variety of fields. See, for example, Allen et al. (1999), Appadurai (1996), Beneria and Feldman (1992), Castells (1996), Gereffi (1995), Mazlish and Buultjens (1993), Short and Kim (1999), Sklair (1997), Smith and Timberlake (2000), Sum (1999), Ward (1991), Yiftachel (1999).
 11. Globalization restricts the range of regulatory options of national governments, as these and many other cases, notably the Mexico crisis, illustrate. Aman (1995) shows how a global perspective on domestic regulatory politics helps explain the absence of radical differences in the regulatory outcomes of different US administrations over the last 15 years. The pressures of global

competition, the nature of corporate entities involved and domestic political pressures to minimize costs and maximize flexibility militate in favor of new, more market-oriented forms of regulatory reform.

12. This spread effect can also work in the opposite regulatory direction, as was the case with reform in the New Deal era.
13. It represents one mechanism for business disputing. The larger system includes arbitration that is controlled by courts, arbitration that is parallel to courts and various court and out-of-court mechanisms such as mediation. The following description of international commercial arbitration is taken from Dezalay and Garth (1995); for these authors, today 'international commercial arbitration' carries a different meaning than it did 20 years ago. It has become increasingly formal and more like US-style litigation as it has become more successful and institutionalized. Today international business contracts for, for example, the sale of goods, joint ventures, construction projects or distributorships, typically call for arbitration in the event of a dispute arising from the contractual arrangement. The main reason given today for this choice is that it allows each party to avoid being forced to submit to the courts of the other. Also important is the secrecy of the process. Such arbitration can be 'institutional' and follow the rules of institutions such as the International Chamber of Commerce in Paris, the American Arbitration Association, the London Court of International Commercial Arbitration or many others. Or it can be 'ad hoc', often following the rules of the UN Commission on International Trade Law (UNCITRAL). The arbitrators are private individuals selected by the parties; usually there are three arbitrators. They act as private judges, holding hearings and issuing judgments. There are few grounds for appeal to courts, and the final decision of the arbitrators is more easily enforced among signatory countries than would be a court judgment (under the terms of a widely adopted 1958 New York Convention).
14. See Dezalay and Garth (1995); Aksen (1990). Yet it is a tight community, with relatively few important institutions and limited numbers of individuals in each country who are the key players both as counsel and arbitrators. There is a kind of 'international arbitration community', a 'club'. The enormous growth of arbitration over the last decade arising out of the globalization of economic activity has produced sharp competition for the arbitration business. Indeed, it has become big legal business (Salacuse, 1991). Dezalay and Garth (1995) found that multinational legal firms further sharpen the competition since they have the capacity to forum shop among institutions, sets of rules, laws and arbitrators. The large English and American law firms have used their power in the international business world to impose their conception of arbitration and more largely of the practice of law.

This is well illustrated by the case of France. While French firms rank among the top providers of information services and industrial engineering services in Europe and have a strong though not outstanding position in financial and insurance services, they are at an increasing disadvantage in legal and accounting services (see *Le Debat*, 1994). French law firms are at a particular disadvantage given the difference between their legal system (the Napoleonic Code) and Anglo-American law in a context where the latter dominates in

- international transactions. Foreign firms with offices in Paris dominate the servicing of the legal needs of firms that operate internationally, both French and foreign firms operating out of France (Carrez, 1991).
15. See also Carbonneau (1990). Anglo-American practitioners tend not to support the continental, highly academic notion of a *lex mercatoria* (see Carbonneau, 1990). The so-called *lex mercatoria* was conceived by many as a return to an international law of business independent of national laws (Carbonneau, 1990). Insofar as they are 'Americanizing' the field, they are moving it farther away from academic law and *lex mercatoria*.
 16. There are two agencies that dominate the global market in ratings with listings of US\$3 trillion each. They are Moody's Investors Service, usually referred to as Moody's, and Standard and Poor's Ratings Group, usually referred to as Standard and Poor. While there are several rating agencies in other countries, these are oriented to the domestic markets. The two major European rating agencies are IBCA Finch and Euronotation.
 17. See Sinclair (1994), picking up on Rosenau (1992). The growing demand for ratings has given the notion of ratings a growing authoritativeness, which for Sinclair is not well-founded given the processes of judgments which are central to it. These processes are tied to certain assumptions that are, in turn, tied to dominant interests, notably narrow assumptions about market efficiency. The aim is undistorted price signals and little, if any, government intervention. Sinclair (1994: 143) notes that transition costs such as unemployment are usually not factored into evaluations and are considered to be outweighed by the new environment created.
 18. Their power has grown in good part because of disintermediation and the globalization of the capital market. The functions fulfilled by banks in the capital markets (i.e. intermediation) have lost considerable weight in the running of these markets; insofar as banks are subject to considerable government regulation and what has replaced banks is not, the lesser role of banks inevitably brings with it a decline in government regulation over the capital markets. Rating agencies, which are private entities, have taken over some of the functions of banks in organizing information for suppliers and borrowers of capital. An important question here is whether these agencies and the larger complex of entities, represented by 'Wall Street', has indeed formed a new intermediary sector (see Thrift, 1987) only one largely not regulated the way the banking sector is.
 19. This hegemony has not passed unnoticed and is engendering considerable debate. For instance, a well-known issue that is emerging as significant in view of the spread of western legal concepts is the critical examination of the philosophical premises about authorship and property that define the legal arena in the West (e.g. Coombe, 1993).
 20. Shapiro (1993) notes that there is not much of a regime of international law, either through the establishment of a single global law-giver and enforcer or through a nation-state consensus. He also posits that if there was, we would be dealing with an international rather than global law. Nor is it certain that law has become universal – that is, that human relations anywhere in the world will be governed by some law, even if not by a law that is the same

everywhere. Globalization of law refers to a very limited, specialized set of legal phenomena, and Shapiro argues that it will almost always refer to North America and Europe; only sometimes to Japan and to some other Asian countries. There have been a few particular common developments and many particular parallel developments in law across the world. Thus, as a concomitant of the globalization of markets and the organization of transnational corporations, there has been a move toward a relatively uniform global contract and commercial law. This can be seen as a private law-making system where the two or more parties create a set of rules to govern their future relations. Such a system of private law-making can exist transnationally even when there is no transnational court or transnational sovereign to resolve disputes and secure enforcement. The case of international commercial arbitration discussed earlier illustrates this well.

21. There are two other categories that may partly overlap with internationalization as Americanization, but they are important to distinguish, at least analytically. One is multilateralism and the other is what Ruggie (1993) has called multiperspectival institutions.
22. All of this is not a smooth lineal progression. There is contestation everywhere, some of it highly visible and formalized, some of it not. In some countries, especially in Europe, we see resistance to what is perceived as the Americanization of the global capital market's standards for the regulation of their financial systems and standards for reporting financial information.
23. For a discussion of the concept of globalization, see King (1997) and Robertson (1997). Compare Robertson's discussion of the world as a single place or the 'global human condition'. I would say that globalization is a process that produces differentiation, only the alignment of differences is of a very different kind from that associated with such differentiating notions as national character, national culture or national society. For example, the corporate world today has a global geography, but it is not everywhere in the world: in fact it has highly defined and structured spaces; second, it also is increasingly sharply differentiated from non-corporate segments in the economies of the particular locations (a city such as New York) or countries where it operates.
24. Shapiro (1993: 63) finds that law and the political structures that produce and sustain it are far more national and far less international than are trade and politics as such. He argues that the US domestic legal regime may have to respond to global changes in markets and in politics far more often than to global changes in law; for the most part, national regimes of law and lawyering will remain self-generating. Though, he adds that they will do so in response to globally perceived needs. In my reading it is this last point that may well be emerging as a growing factor in shaping legal form and legal practice.
25. The best known instance of this is probably the austerity policy imposed on many developing countries. This process also illustrates the participation of states in furthering the goals of globalization, since these austerity policies have to be run through national governments and reprocessed as national policies. In this case it is clearer than in others that the global is not simply the non-national, and that global processes materialize in national territories and institutions. There is a distinction here to be made and to be specified

- theoretically and empirically between international law (whether public or private law) which is always implemented through national governments and these policies that are part of the aim to further globalization.
26. More generally, US dominance in the global economy over the last few decades has meant that the globalization of law through private corporate law-making assumes the form of the Americanization of commercial law (Shapiro, 1993). Certain US legal practices are being diffused throughout the world, for instance the legal device of franchising. Shapiro notes that it may not only be US dominance but also a receptivity of common law to contract and other commercial law innovations. Thus it is widely believed in Europe that EC legal business goes to London because its lawyers are better at legal innovations to facilitate new and evolving transnational business relations than they are at the civil law of the continent. 'For whatever reasons, it is now possible to argue that American business law has become a kind of global *jus commune* incorporated explicitly or implicitly into transnational contracts and beginning to be incorporated into the case law and even the statutes of many other nations' (Shapiro, 1993: 39).
 27. There is a growing consensus among states to further the goals of economic globalization, to the point that some see in this a constitutionalizing of this new role of states (see Panitch, 1996; Cox, 1987; Mittelman, 1996).
 28. There are two distinct issues here. One is the formation of new legal regimes that negotiate between national sovereignty and the transnational practices of corporate economic actors. The second issue is the particular content of this new regime, one that contributes to strengthen the advantages of certain types of economic actors and to weaken those of others. Regarding governance these two aspects translate into two different agendas. One is centered on the effort to create viable systems of coordination/order among the powerful economic actors now operating globally. International commercial arbitration and credit rating agencies, as I discussed them earlier, can be seen as mechanisms for creating this type of order. The second is not so much focused on how to create order at the top but on equity and distributive questions in the context of a globally integrated economic system with immense inequalities in the profit-making capacities of firms and in the earnings capacities of households.

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