

## **Summary of Proceedings**

### **CONFERENCE ON THE EVOLUTION OF THE NATION-STATE THROUGH 2015**

By  
William J. Lahneman  
Project Coordinator

**April 18, 2000**

The Inn and Conference Center  
University of Maryland, College Park, MD

#### **The National Intelligence Council Project**

Jointly managed by  
The Center for International and Security Studies at Maryland  
and  
The Center for International Development and Conflict Management

University of Maryland, College Park, MD  
**Conference on the Evolution of the Nation-State Through 2015**

#### *Background on the National Intelligence Council Project*

In the summer of 1999, the National Intelligence Council tasked the University of Maryland to serve as a portal for identifying and presenting leading academic research on topics of particular interest to the US intelligence community, based on the Strategic Themes laid down by the Director of Central Intelligence. The project's investigation into forces shaping the evolution of

the nation-state will contribute to *Global Trends 2015*, a NIC publication due to be issued in the fall of 2000. *Global Trends 2015* will describe significant international characteristics and trends likely to affect the future security of the United States.

The *Conference on the Evolution of the Nation-State Through 2015* was the culmination of an intensive inquiry into the factors that influence state performance and their likely effect upon state capacity, cohesion, and legitimacy in the year 2015. Several conceptual planning sessions, three one-day workshops and a number of expert consultations were conducted prior to the conference. Leading scholars in each research field applicable to the project's central topic participated in the project. Principal project participants are listed following the Summary of Proceedings.

### *Overview*

The participants identified many circumstances that might substantially affect the evolution of the nation-state between now and 2015, but they did not anticipate its demise or even its radical transformation. Generally they emphasized the adaptability of the state as a form of political organization. Given the diversity of influences at work, they did not envision any single predominant outcome. They did explore some of the consequential changes that might result from four basic sources:

- the process of globalization,
- the evolution of political attitudes,
- the activities of non-state actors, and
- emerging standards of governmental performance.

Among the project participants, a consensus emerged that states will remain the principal actors in international affairs in the world of 2015, although individuals differed considerably regarding the degree of predominance states would retain. This range of views primarily stemmed from differing beliefs regarding the impact of globalization and the changing role of non-state actors. Some contended that the development of a more interdependent world would create more and more transsovereign problems that are not responsive to unilateral state action. But this does not imply that multilateral state action would be ineffective. Similarly, it was argued that the continuing rise of newly influential non-state actors and their networks would compete with the state for people's allegiance in certain issue areas. At the other end of this debate, project participants argued that states possessed the flexibility to adapt to changing circumstances rather than be overcome by them. Others asserted that states governed in accordance with increasingly standardized performance criteria could preserve legitimacy even while delegating to non-state actors the responsibility for providing various services within the state's territory.

Participants concluded that all of these arguments had merit. Given the widely disparate capacities of states and varying popular standards of expected state performance, individual states will respond to globalization and the rise of non-state actors differently. Some states – developed states appear to have an advantage in this regard – are likely to use globalization-related developments and non-state actors as tools to improve their legitimacy and cohesion.

Other states will not be able to handle the evolving international environment, and some of these will fail or collapse. A number of states will merely cope: their governments will remain in power, but these states will not contribute meaningfully to solving pressing transsovereign problems, and their citizens' quality of life will lag behind.

The range of possible state responses notwithstanding, conference participants reached agreement on three additional points. First, unilateral state action will become less effective as transsovereign problems become more prevalent. Second, ongoing globalization and the increasing influence of non-state actors will pressure states to change the *manner* in which they exercise authority over affairs in their territories. Governments will change from monopoly providers of services to managers of services that are provided both by the state and by a variety of non-state actors. Third, the increased numbers and influence of non-state actors that operate across state boundaries and the need to grapple with transsovereign problems will tend to create increasingly uniform standards concerning what constitutes acceptable governmental performance.

### *Summary of Proceedings*

**John Steinbruner** opened the conference by noting that states will live in a world increasingly characterized by five influences. First, the world will experience prodigious efficiency gains in the handling of information. Second, population dynamics will be characterized by rapid growth at least through 2025, with virtually all of the projected increase expected to occur in the poorest quintile of the world's population. Third, based on current trends, it appears that, as the process of adjustment to technological change proceeds, the benefits of economic growth will be concentrated at the top of the economic spectrum, causing the gulf between richest and poorest to grow. Fourth, skewed population and economic development will lead to increased pressure for more equitable social development. If too many societies fail to provide a more equitable pattern of development, the world as a whole may experience massive political instability. Fifth, economic growth must be accomplished in an environmentally tractable manner to ensure its sustainability, a monumentally difficult task since improving standards of living mandate a doubling of food production and a tripling of energy production by 2050.<sup>1</sup>

### The Effects of Globalization

Against this backdrop, the participants discussed the impact of globalization on state behavior. Particular attention was paid to the dramatically increased efficiency of handling information, the integration of national economies into global financial markets, the increasing porosity of borders, and the continuing expansion in the volume of international trade – all factors that make states progressively more interdependent (or dependent in some cases) upon forces and institutions outside their borders. Although there was no consensus about the cumulative effects of globalization on the state except that they appear to be very wide-ranging, the group noted that the ability of states to cope with globalization varied considerably.

---

<sup>1</sup> See John D. Steinbruner, *Principles of Global Security* (Washington, DC: the Brookings Institution Press, 2000).

**Richard Rosecrance** presented one view of how a state can respond to globalization in a way that successfully preserves its capacity, legitimacy, and cohesion. He argued that a state must increasingly concentrate on managing *flows* to achieve a greater share of world output rather than, as in the past, focusing on amassing *amounts* of territory, natural resources, population, and production within its borders.<sup>2</sup> Historically, state capacity had been viewed in military terms, always concerned with the ability to control and mobilize manpower and other resources. Now, states are moving toward a model more like that of a modern multinational corporation, employing decentralized production and outsourcing for raw materials and intermediate products. If these trends continue, states must be in a position to control flows across and within their borders. In addition to directing flows of capital, technology, and labor, the state must also attract the right factors to enter its own territory. Rosecrance stressed that this phenomenon does not necessarily mean that the state is weaker, but rather that the source of its power and capacity has changed.

Rosecrance has coined the term “virtual state” to describe a state whose government makes this adjustment and continues to thrive as globalization intensifies. Because the virtual state is primarily concerned with managing flows of capital, technology, human resources, and information, the quality of its educational system and the refinement of the infrastructure supporting its service-based economy clearly become predominant elements of state capacity.

In one of the more provocative images of the conference, Rosecrance asserted that these trends would lead states to become divided into “head” and “body” states. Head states, with their mature financial systems, high educational levels, and advanced technological capability, will optimize their work forces to provide services, including the design and financing of production facilities in the body states, where large pools of relatively inexpensive labor can produce goods at lower cost than in the head countries. Body states can develop into head states, and until then, can leverage their comparative advantage in production to pit head state against head state in competition for the body state’s production capability.<sup>3</sup>

But other conference participants challenged this optimistic scenario. First, **Ann Florini** was skeptical that body states could routinely evolve into head states, observing that a system characterized by a head/body state division could intensify inequality and be inherently unstable. Second, **Carmen Reinhart** noted that banking sectors are often improperly monitored, fiscal and monetary policies may not be sufficiently responsible, and even well regulated economies face recession when foreign investment booms inevitably die out and inflows of capital diminish. Third, some noted that many developing states find themselves confronted with a dilemma when dealing with globalization. State governments must open their economies to global competition in order to attract development capital, but this leaves them dangerously susceptible to financial crises. An open economy in an interdependent world can be a risky venture for a developing state.

Transnational criminal organizations and their networks pose a serious challenge to even the most technologically developed states, as **Phil Williams** observed. Well-financed and

---

<sup>2</sup> See Richard Rosecrance, *The Rise of the Virtual State: Wealth and Power in the Coming Century* (New York: Basic Books, 1999).

<sup>3</sup> *Ibid.*, xi-xii.

technologically-refined transnational criminal organizations and networks, unencumbered by the need to remain within the law and capable of shifting their base of operations to the most accommodating country, actively seek to exploit the weak points, or “capacity gaps,” in a state’s enforcement mechanisms. While developed states may use advanced technology against criminal elements, this technique entails a danger of imposing such harsh restraints upon its citizens’ civil liberties that state legitimacy suffers and the quality of civil society decreases. This is a particularly sensitive limitation where democratic forms of government are concerned.

Williams suggested that the severity of the threat of organized crime has become so pronounced that it would begin to redefine the idea of a state. He introduced the term “captured state” to describe situations in which criminal influence has become so pervasive that the state effectively becomes a partner with organized crime. Some states have essentially been taken over by organized crime and are termed “criminal states.” The implication of this trend is the creation of a bifurcated world, with captured and criminal states set against lawful states.

Others suggested that the challenge posed by globalization might be even more fundamental, leading to a qualitatively different type of international structure in which states no longer serve as the principal actors. **Maryann Cusimano** contended that globalization is causing the development of more and more problems that are transsovereign in nature.<sup>4</sup> Solving transsovereign problems requires capacity, authority, and legitimacy, yet no one actor (including states) has the requisite strengths in all three areas. Accordingly, state governments must increasingly rely upon networks of actors to combat these problems. Networks can include states, intergovernmental organizations, transnational corporations, and organizations in the nonprofit sector, each network member being selected for its particular capabilities. Cusimano asserts that this shift is significant because states, which once exercised extensive control over affairs that affected their territory and population, must now surrender some control to its network partners if transsovereign problems are to be successfully combated. Even strong states are increasingly “contracting out” to licit non-state actors in an attempt to align capacity to authority and legitimacy. Licit and illicit non-state actors perform functions which states are either unable or unwilling to perform.

Cusimano did not argue that the state will disappear, but that sovereignty is changing. In democratizing states, and states undergoing transitions after empire, state capacity has declined (e.g. Russia, South Africa). Regime effectiveness suffers as new political and economic institutions are constructed while day-to-day governance must continue. However, legitimacy may be increasing in these states even though state capacity is decreasing. In developed states, one might argue that globalization’s open markets, societies, and technologies are increasing state capacity. However, even in the most powerful states, such as the United States, the public sector is either shrinking or not growing as fast as the private sector. Relative to the private sector, state capacity has decreased, leading even the strongest states to enter into partnerships with non-state actors to try to manage transsovereign problems, from money laundering to cybercrime. In places like Colombia, disproportionate growth in the private sector vs. the public sector allowed criminal and terrorist networks to grow faster than the state’s ability to respond. Democratic, capitalist states are not able to increase state capacity radically without compromising ideological principles that underlie the legitimacy of the state. Non-state actors

---

<sup>4</sup> See Maryann Cusimano, *Beyond Sovereignty: Issues for a Global Agenda* (Boston: St. Martin’s Press, 2000).

are able to make relatively free use of significant prior investments in global infrastructure. States will not wither away; citizens still expect states to provide justice, peace, and collective representation. However, the private sector is investing in information technology faster and more extensively than the public sector. The private sector also uses more adaptive, network organizational structures, which are faster and more fluid than the public sector's preferred organizational form, the hierarchical bureaucracy. This means that the private sector's capacity is increasing in technology, information, speed of response, adaptive organizational structures, resources, personnel, and competency relative to state capacity. States' attempts to work with the private sector to manage transsovereign problems (by borrowing, buying, or deferring to private sector capacity) may have the unintended effect of further undermining and changing sovereignty.

**Lester Salamon** pointed out that the explosive growth of influential non-state actors is affecting not only the range of governmental functions, but *how* states govern. The "new governance" entails a shift away from "programs and policies" thinking towards a "tools and instruments of action" approach. An associated shift, in which the nonprofit sector is very significant, is in a change from "public sector versus private sector" thinking towards "public sector plus private sector" thinking. This alters the role of the nation-state away from command and control towards negotiation and persuasion. Where governments have traditionally viewed themselves as the exclusive provider of services, they will evolve into managers of services, turning over the provision of certain services to non-state actors that are better qualified to provide them.<sup>5</sup>

As the influence of non-state actors grows, and the interaction between states and non-state actors expands, *transparency* may become a major tool in facilitating the adaptation to some of globalization's effects, says **Ann Florini**. An organization is transparent when information concerning its financial, administrative, and operational practices is available to the public. Observing that the vast majority of non-state actors do not practice transparency, Florini stressed the need for greater transparency as the influence of these actors grows. She noted that globalization is already nurturing the creation of a global civil society, whose nascent strength was demonstrated at the WTO meeting in Seattle. Many civil society actors are networked very effectively, and are able to exert considerable influence on policy. For state governments to be effective as the number of influential non-state actors grows, they must be able to obtain a large amount of reliable information about the operations of individual actors and their networks. Similarly, the public must have access to reliable information, both to facilitate the grassroots assessment of government performance and to foster the development of healthy civil societies, both domestically and internationally.

Florini observed that, even where transparency exists, the state finds it very difficult to obtain and manage such large amounts of data. Fortunately, transparency often makes large-scale data management by the state unnecessary. Some regulatory actions by the state have fostered transparency and consequently have led to changes in behavior through grassroots action rather than government enforcement. For example, the lowering of toxic waste levels by US industry following the passage of the Community Right to Know Act resulted from public mobilization

---

<sup>5</sup> See Lester Salamon, "Nonstate Actors on the Global Scene: The Case of Civil Society Organizations," paper prepared for the National Intelligence Council Project, April 18, 2000.

after the government required firms to make information about pollution levels from individual sites available to the public, not from enhanced government oversight.

Regardless of whether a fundamental change in the international system is underway, everyone expected states to remain predominant at least through 2015, and probably for considerably longer. But this consensus also incorporated the view that, in general, state capacity would decrease over the next fifteen years as a result of globalization and the increasing influence of non-state actors and their networks. This consensus was based on three principal reasons. First, **John Steinbruner** noted that states seem naturally suited to provide certain essential or core services that will continue to legitimize them unless individual regimes practice such poor governance that they drive their citizens to look for alternatives. These services include the maintenance of law and order and the provision of justice. Second, **Stephen Krasner** contended that states are a very flexible form of political order with many tools at their disposal – including a bendable definition of sovereignty – for co-opting and otherwise accommodating increasing interdependencies and the emergence of newly-empowered non-state actors.<sup>6</sup> Third, both Krasner, in the distinction he draws between the concepts of state control and state authority, and **Stephen Flynn**, who best illustrated this distinction through his discussion of the problems resulting from the increasing porosity of borders, called attention to the fact that the *legitimacy* that citizens ascribe to their state's government is not directly proportional to the government's ability to *control* directly events within its territory.

While these three factors provide states with the *means* to respond to globalization's many challenges to state authority, actual responses will depend on each state's particular endowment of internal resources and practices, as well as on the specific external pressures involved. Even "successful" responses -- those that preserve the state's authority, legitimacy, and cohesion -- are likely to be accompanied by changes in state structure and governance.

### The Evolution of Political Attitudes

Any assessment of state capacity, legitimacy and cohesion requires the application of some set of standards defining what constitutes sufficient state performance in these areas. This is true even if one is only concerned with a "pass/fail" criterion, where failure means that the state has succumbed to violence or financial crisis. However, if a more precise standard for measuring state performance is desired, it becomes apparent that the criteria for what constitutes acceptable capacity, legitimacy, and cohesion can and does vary from state to state and across time.

Stability within the state, according to **I. William Zartman**, is tied to an appropriate balance in the types and amounts of functions a state performs. Basically, citizens surrender some of their wealth and forgo certain liberties to live in a given state, and the ruling regime provides services, including some commitment to improving quality of life and the enforcement of law and order. State collapse is predicated upon the failure of the regime to provide *expected* services. The expectations of the citizenry are predicated upon the amount of taxes they pay and the liberties they forgo.

---

<sup>6</sup> See Stephen D. Krasner, *Sovereignty: Organized Hypocrisy* (Princeton: Princeton University Press, 1999).

Zartman contended that an enormous increase in expectations has occurred since World War II. The state is not being replaced, but the number of functions that society expects it to perform has increased dramatically. Since states vary considerably in their ability to provide all of these additional functions, non-state actors have taken on many of them. In addition to taking over state functions, Zartman noted that non-state actors could raise or lower public expectations regarding certain state functions.

Zartman believes that popular expectations of state capacity peaked during the heyday of communist regimes (whose expectations were successfully exported to many post-colonial states) and may now be declining. But conference participants were divided regarding whether the size of the “pie” of functions will continue to grow.

Assessing shifting public attitudes towards state performance requires identifying an appropriate baseline from which to judge the effects of current trends. **Stephen Krasner** focused on the concept of sovereignty, which he argued has always been violated to some degree. Moreover, sovereignty is much more complex than the traditional view of a clearly packaged bundle of rules. Sovereignty has four dimensions, which do not always work together, either logically or empirically. These dimensions are:

- domestic sovereignty, or the authority structure within states and the degree to which that structure exercises internal control;
- interdependence sovereignty, or the control over cross-border flows;
- international legal sovereignty, a set of rules by which territorially bounded political entities with juridical independence are recognized; and
- Westphalian sovereignty, or the exclusion of external authority over domestic issues.

Krasner pointed to an “organized hypocrisy” in which most states generally invoked the rules of sovereignty, but frequently violated them. Violations of Westphalian sovereignty were particularly numerous.

Krasner’s observations focused the group on the fact that states do not have to be mere bystanders where standards and expectations are concerned. First, governments can and do actively participate in setting expectations. For example, **Zartman** observed that, by promising their people extensive social services, communist and socialist regimes have had the effect of raising popular expectations concerning what constitutes adequate state capacity. At the other end of the spectrum, he noted that the people of disappearing and collapsed states<sup>7</sup> will slowly reduce their expectations concerning the services the state should provide, often coming to expect non-state actors to fill gaps in the provision of services. This process can work both ways, however: revolutionary movements and other non-state actors can preemptively seek to change popular expectations in ways that make state capacity appear inadequate.

Second, state governments may recognize that non-state actors might be the best agents to provide certain services that citizens reasonably expect. In many cases, a government can delegate control to these actors, meet the expectations of their citizens, and, if handled properly, actually gain legitimacy in the process. For example, **Stephen Flynn** argued that, given the

---

<sup>7</sup> These kinds of states are discussed on page 24.

techniques for controlling the movement of vast amounts of goods that business firms have developed, the U.S. government should delegate to certain offshore production companies the authority to prescreen certain types of intermediate manufactured goods that are subsequently shipped to the United States for final assembly. This policy would alleviate the demands on already overworked U.S. Customs inspectors at major border crossing points where the sheer volume of goods and transactions that must be inspected under demanding time constraints seriously degrades the ability of current techniques to intercept contraband. Flynn asserted that, given the need for large manufacturing firms to outsource and to practice “just in time” inventory control to remain competitive, companies should welcome this kind of government-business partnership because it improves transaction predictability and minimizes the time that goods are in transit.

Third, states can abdicate control over functions that have become too fractious or otherwise too hard to handle without loss of legitimacy. **Krasner** contends that the Peace of Westphalia incorporated just such an event: despite rhetorically endorsing the slogan *cuius regio eius religio* (the principle that the ruler could set the religion of his territory), at least within the Holy Roman Empire there was a commitment to religious toleration. The principalities of the Empire agreed to a consociational form of decision making that effectively denied rulers the right to act unilaterally on religious issues. Although this decision constituted a severe decrease in state capacity, states emerged as more unified political structures because they had shed responsibility for controlling an extremely contentious issue.

Fourth, Krasner’s four-dimensional definition of sovereignty implies that a state can offset decreases in one dimension of sovereignty by increasing its reliance on another dimension over which it has greater control. For example, many of the factors eroding domestic sovereignty (the ability of government to exercise control within its territory) are based on flows. The state possessing the appropriate endowments may be able to partially offset the erosion of domestic sovereignty by subscribing to international agreements that strengthen its interdependence sovereignty (the ability of state government to regulate flows across its borders).

### The Increasing Influence of Non-State Actors

Non-state actors are not new to the international (or domestic) arena, but their numbers and influence have increased dramatically in recent years and continue to expand, fanned by the spread of information technology, the increasing importance of transsovereign issues, and changes in popular expectations.

Power relationships between non-state actors and the state defy simple categorization. Some non-state actors and networks of non-state actors have been able to exert their collective will and bring about desired outcomes at the expense of the state’s capacity and legitimacy (e.g., transnational criminal networks). In other cases, non-state actors help to harmonize state effort with that of other organizations, thus increasing the overall efficiency with which important issues are tackled (e.g., the Rollback Malaria Initiative). Still other non-state actors serve as extensions of the state, receiving a majority of their funding from state governments. This arrangement helps state governments distance themselves from projects that they either are ill-

equipped to support directly or prefer to keep at arms length (e.g., many states provide funding to humanitarian nonprofit organizations that distribute food and medical aid). In these cases, state legitimacy may be preserved, or even enhanced, despite the fact that the state has reduced its capacity. Other non-state actors fill “capacity gaps,” i.e., perform functions that help people at the grassroots level when the state is unable to do so or is skeptical that some new innovation will work (e.g., microlending enterprises). In these cases, state legitimacy may suffer. Still other non-state actors remain marginalized, but the increasing spread of Internet access allows these groups to organize larger and larger constituencies and speak with ever-louder voices.

The organizational forms of non-state actors vary widely. While some organizations rely on traditional hierarchical organizational structures, many increasingly rely upon a structure in which authority is widely distributed. **Anthony Judge** contends that non-state actor *networks* are beginning to eclipse individual member organizations in importance. Network membership often crosses traditional boundaries to include state governments, transnational corporations, and nonprofit organizations in various combinations. Systematic analyses of networks is just beginning, making this an important area for additional research.<sup>8</sup> Authority structures within many organizations and networks are not democratically based. As noted by **Ann Florini**, non-state actors differ considerably in terms of their transparency, i.e., the degree to which their operations, decision-making processes, and sources of funding are open to public scrutiny.

Despite their diversity, non-state actors can be broadly grouped into four categories:

- for-profit organizations,
- intergovernmental organizations,
- nonprofit organizations, and
- criminal organizations.

### The For-Profit Sector

**Virginia Haufler’s** paper<sup>9</sup> contended that the growth in transnational corporations is one of the major challenges to states today. Transnational corporations (TNCs) operate on a global basis, and their manufacturing facilities are integrated into a global production strategy. Multinational corporations (MNCs), in contrast, are multidivisional business organizations in which separate production facilities are established in different countries. More MNCs are becoming TNCs, and the top 100 TNCs are becoming increasingly transnationalized. The largest possess assets greater than all but a handful of states. One effect of transnationalization is the fact that a growing share of world exports and imports is now accounted for by trade *within* corporations instead of between them. The most transnational sectors among the top 100 TNCs overall are food and beverages, chemicals and pharmaceuticals, and electronics and electrical equipment.

Haufler asserted that the organization of production has changed dramatically over the past two decades. Major corporations have centralized decision-making within the firm and some

---

<sup>8</sup> See Anthony Judge, “Identifying, Counting, and Categorizing Intergovernmental Organizations,” paper prepared for the National Intelligence Council Project, 13 April 2000,

<sup>9</sup> For additional information, see Virginia Haufler, “Identifying, Counting, and categorizing actors in the For-Profit Sector and Their Effects on State Capacity,” paper prepared for the National Intelligence Council Project, April 18, 2000.

international markets are now dominated by only a few firms. At the same time, many firms are decentralizing operations into transnational networks of partners and suppliers. Large and small corporations participate in various types of relationships including joint ventures, strategic alliances, and technology partnerships. Networks of contractual relationships blur the boundaries of the firm and redefine the nature of international economic competition, as competitors cooperate on specific ventures. With the advent of e-commerce, corporate organization will change further, facilitating global, decentralized commercial relationships. All of this represents a transformation of the business world from the traditional hierarchical, arm's-length model of organization and competition to something that is more complex and difficult to characterize.

Citing the 1998 UNCTAD World Investment Report, Haufler reported that there are at least 53,000 transnational corporations with more than 450,000 affiliates. Worldwide, foreign direct investment (FDI) has increased steadily. FDI combines long-term investment capital, managerial expertise, and technology into an integrated package in which the parent corporation has an ownership stake and is directly involved in the management of its foreign holdings. The majority of foreign direct investment is concentrated in the developed countries, with more than 2/3 of inward FDI and 90% of outward FDI stocks located there. The developing countries, however, have increased their share of foreign investment significantly in the 1990s. Most foreign direct investment in the past few years has flowed to newly emerging East Asian markets, especially China. While the financial crisis of 1998 slowed down investment and completely reversed short-term capital flows at least temporarily, long-term investors expanded their stakes in South Korea and China. Most corporations invest in foreign countries in order to gain the advantages of a particular location (in terms of resources and markets) and to gain efficiencies from internationalizing the costs of production.

Haufler pointed out three of the most significant trends in the past decade have been: the wave of mergers and acquisitions across national boundaries; the large privatizations of government-owned assets in many countries around the world; and the more welcoming attitude by almost all developing countries towards foreign investment. Transnational mergers and acquisitions each year attain a new record in terms of the size of the deal involved. Privatizations in the big emerging markets alone (BEM) have been steady and massive, attracting foreign investment in the newly privatized assets. Almost every country has revised its laws to be more investment-friendly. Despite this trend, there still remain some sectors that individual governments declare off-limits to foreign investors, such as certain real estate, print and electronic media, and transportation.

Haufler asserted that transnational corporations affect state capacity in a number of ways, both positively and negatively. How vulnerable a country is to challenges from transnational corporate activity depends on the size and attractiveness of its market. TNCs decide where to invest their capital and technology, and thus determine to a large extent where economic activity and innovation will occur. Transnational corporations do not just determine the location of investment, but also the organization of production and the degree of technological transfer. The networks of partners and suppliers a TNC constructs provides it with more flexibility to cut contractual relationships quickly. This means local companies have a much more tenuous link to the global economy than if they were integrated more directly within a corporate organization.

Many government policy makers fear that transnational corporations are too transnational, with little commitment to any one national economy. The industrialized countries in particular express concern that even long-standing investors in a country may pull up roots and move offshore if a better opportunity presents itself. This action could undermine industrial and employment policies and create economic havoc in local communities. Typically, transnational corporations prefer not to be associated with any one country, although the way they organize and conduct business clearly reflects significant characteristics of their country of origin. In conflicts between home and host countries, many foreign investors try to remain neutral, although this can be extremely difficult.

Industry standard-setting and corporate diplomacy are two areas of activity that have received much less attention than they deserve in discussions of state capacity. Both may affect state capacity by changing the relationships between the public and private sectors. Standard-setting typically is viewed as a public good that is a basic function of government. Private efforts to set industry standards may supply all the benefits of standardization without the need for government intervention, but it may also lead to the adoption of standards with pro-business biases that pose high barriers to entry to particular firms and countries attempting to participate in international markets. International corporate diplomacy is part of a larger trend in which non-state actors are almost equal participants in world affairs. The shape of world politics in the coming years will be determined significantly by negotiations among all actors that use transnational networks to coordinate their operations: non-governmental nonprofit groups; intergovernmental organizations; transnational corporations; and sovereign governments.

With regard to the future, Haufler concluded by observing that the vast majority of economic transactions are still within local markets, particularly in the service sector. Europe and the United States probably will continue to be the major exporters and importers of capital well into the new century. Foreign markets will become temporarily more attractive for equity investment, but the advanced industrialized markets will remain attractive due to their size and openness. These countries will be the site for much of the consolidation within industry sectors, such as automobiles and telecommunications. The more centralized, high value added activities of TNCs will be located in these nations. Among the main OECD countries, the capacity and legitimacy of the state may be challenged by transnational corporations in a number of significant areas, but primarily in the areas of taxation and regulation of the private sector. Firms will increase their engagement with nongovernmental and intergovernmental actors in response to increased consumer and shareholder activism, as well as to counter the increased threat of government regulation. Haufler concluded by noting that a strong backlash against globalization and against corporate activity may be possible, which could turn back some of the economic openness of the last several years.

#### Intergovernmental Organizations

**Anthony Judge** began his remarks by noting that there have been numerous initiatives to identify, count and categorize intergovernmental organizations (IGOs). However, as society becomes more complex, fluid, and dynamic, international organizations change along with it, and it becomes necessary to examine more comprehensive ways of categorizing their features. It is particularly useful to explore the nature of IGO interlinkages with other transnational bodies

and networks, especially when this contributes to hybridization of form and function across classical categories.

Judge described how the subject classification scheme of the Union of International Association (UIA) shifts the paradigm from the conventional laundry list of topics to an integrative structure more consistent with the pattern of functional interaction between subjects. A rich scheme of categories can predict the possible existence of unidentified forms of intergovernmental organization, and can also encourage the design and use of unforeseen types of organization. The intention is to proceed progressively from the relatively unmistakable to the more ambiguous and challenging cases.

Judge categorized IGOs by clustering them into three groups. Group 1 clusters dimensions that tend to be prime determinants of whether a “body” can be recognized as “existing” because it has some tangible form (physical offices), a legal form, and whether these exhibit some pattern over time. The most conventional and narrow view of intergovernmental organization would focus on bodies that were permanent and treaty-based with secretariats. Bodies of this type are the easiest about which to obtain data. Group 2 clusters dimensions that determine whether a body has come into existence as the result of an intergovernmental initiative, regardless of whether it exists according to Group 1 guidelines. The most conventional and narrow view of this category of intergovernmental organization would focus on bodies that were public, unmediated and autonomous, i.e., non-hybrid forms. But organizations in this category can still become very complex. For example, intergovernmental organizations may form collaborative arrangements, typically task forces for purposes of coordination on issues of common interest. Group 3 categorizes according to the nature of the IGO’s membership. Membership can be categorized according to the geographic area from which an IGO draws its membership or by the area in which it operates (e.g., universal, regional, bi-lateral). IGOs can also be categorized according to the mix of governmental and nongovernmental organizations in their membership, by the degree with which they interact with other state and non-state actors, by their mode of operations (e.g., information exchange, consultative, technical), and by the degree to which they operate in a given sector of activity (e.g., banking, economic development, climate change, human rights). The most conventional and narrow view of intergovernmental organization would tend to avoid the variants on each dimension, which apparently detract from the “intergovernmental” quality because of their specificity.

Judge contended that attempts at categorization fail to capture the major shifts in international organization that have occurred over recent decades. The functional boundaries of IGOs (through strategic alliances, partnerships, coalitions, multi-group initiatives and campaigns) have been effectively redefined. Most importantly, the meaningful unit of analysis is shifting increasingly from isolated entities to networks or configurations of entities. There have also been shifts:

- from “proper hierarchical channels” to unforeseen links between unrepresentative bodies acting at every level, often in an ill-defined semi-official capacity;
- from an emphasis on “representativity” to emphasis on capacity, initiative and “creativity”;
- from IGOs defining issues and initiating programs to external issues and initiatives redefining IGOs;

- from reliance on a single strategic plan to dependence on an “ecology” of strategic initiatives; and
- from real, objective, stable substantive issues to dynamic media-spun issues of perception.

According to Judge, these developments have generated a need to move beyond the practice of simply counting the number and types of organizations to assess IGO operations for the 21<sup>st</sup> century. Rather, emphasis should be placed on answering the following questions:

- At what stage does the network of linkages in which an IGO is embedded become of equal or greater significance than the actor treated in isolation?
- In shifting the unit of institutional analysis to networks of entities, how should such an analysis integrate corresponding information on networks of *issues* with which people identify, and with the networks of strategies used to manage these issues?

These questions are especially important because evolving issues and strategy networks might anticipate intergovernmental institutional development rather than follow it, making such analyses vital for effective policy integration.

Judge asserted that the importance of innovation in the structure and use of intergovernmental organizations in the 21<sup>st</sup> century would center around:

- emergent forms of configuration: significance may lie in the configuration or networks of organizations rather than in individual organizations considered in isolation;
- the dynamics of the configuration rather than in the static structure;
- the evolution of the network configuration, rather than its current form;
- the development of alternatives to the emergent networking pattern; and
- the ability to match network structure to the specific issue it is meant to address.

Judge stated that the global challenge is to explore and develop “organizational ecosystems,” operate “ecosystems of strategies,” and deal with “ecosystems of problems,” in the light of “ecosystems of values.” Equivalent challenges exist at the national level. It is unfortunate that these challenges are addressed by nation-states in a strategic environment that has largely shifted its center of gravity from “statics” to “dynamics.” Judge asserted that the dynamism of problems, and the creativity of transnational criminal networks, will drag the nation-state into a new mode during the years to 2015 -- catalyzed by the potentials of the Internet with which the politically apathetic younger generations will identify.

Judge asserted that the many territorial disputes that currently destabilize global society point to the failure of intergovernmental organization to shift to a more complex level of analysis of boundaries. Within this emerging environment, much depends on a shift in perspective. In a world of gaps (north-south, male-female, young-old), the most fundamental gap is liable to be between commitment to the static attribute of states and an ability to function in terms of global dynamics. Many bodies and institutions will learn to function on either side of the gap and will be able to transmit between them. The core challenge to the nation-state is liable to be its over-identification with static boundaries and structures in a world that is liable to be defined above all by shifting boundaries and structures in transformation. The nation-states that will thrive in this

new environment will be those that discover ways of getting “into the flow,” so that they can play a role in motivating constituencies and reframing concepts.

Judge concluded that governance, and the integrity of the nation-state, increasingly will rely on the process of ensuring the emergence and movement of such “guiding metaphor-models” through the information system, as well as their embodiment in organizational form.

The merit of this vision of nation-state governance to 2015 is that it does not call for a radical transformation of institutions -- which is unlikely in the absence of any major catastrophe.

Rather it calls for a change in the ways of thinking about what is circulated through society’s information systems as the triggering force for any action. Nation-states will survive and evolve to the extent that they are able to cultivate more attractive, dynamic metaphors as information-interpretation vehicles through which to navigate the complexities of turbulent societies.

### The Nonprofit Sector

In describing the nonprofit sector, **Lester Salamon**<sup>10</sup> asserted that the world is in the midst of a “global associational revolution,” a massive expansion of nonprofit activity and citizen action outside the boundaries of the market and the state, that may prove to be as significant a development as the rise of the nation-state. This development reflects a number of rather profound social, political, and technological developments. This expansion has been caused by:

- the limitations of states’ abilities to deal with the interrelated social welfare, developmental, and environmental challenges;
- the spread of information technology, which has opened new opportunities for grassroots organizational development and cross-national organizational linkages;
- the significant growth of educated middle classes, who turn to alternative forms of political organization to achieve upward mobility when they perceive that state-based forms of political organization are unresponsive; and
- the globalization of philanthropy and the emergence of external actors committed to fostering the growth of civil society in developing regions.

Nonprofit organizations appear to be growing much faster than the other components of the economies of the countries for which data are available.

Despite its increasing importance, Salamon maintained that the nonprofit or civil society sector is poorly understood and under-appreciated in most parts of the world. One reason for this is the tremendous diversity of this sector and the resulting confusion that exists about what it really contains. A wide variety of terms used to depict the range of nonprofits focus attention on one facet of these organizations while downplaying or minimizing other important aspects. Several different definitions in the literature have significant drawbacks. Salamon has developed the “structural/operational definition” of the nonprofit sector, which places entities in the nonprofit sector if they are:

- *organizations*, i.e., institutionalized to some extent, even if not formally registered;

---

<sup>10</sup> Salamon, op. cit.

- *private*, i.e., institutionally separate from government;
- *nonprofit distributing*, i.e., not returning profits to their owners or directors;
- *self-governing*, i.e., equipped to control their own activities; and
- *voluntary*, i.e., involving some meaningful degree of voluntary participation.

Salamon has developed a systematic picture of the scope and structure of the nonprofit sector in 23 countries stretching over six continents. He offered the following ways to categorize these organizations:

- Number. As of the mid-1990s, approximately 3 million organizations were in operation. The number of organizations, however, is not a very effective measure of the presence of nonprofit activity because data on the number of organizations is rarely reliable, organizations vary widely in size, and most data systems fail to purge inactive or defunct organizations.
- Employment. A more reliable indicator of organizational activity is the number of people that work in nonprofit sector organizations either as paid staff or volunteers. Nonprofit organizations turn out to be major employers in many countries and have substantial expenditures as well. The bulk of this employment is in the social welfare field, including health, education, and social services; development and advocacy account for relatively small shares. In the 23 countries that Salamon has studied, nonprofit organizations accounted on average for:
  - One out of every 20 nonagricultural workers;
  - One out of every ten service workers;
  - More employees than are employed in the utilities, textile manufacturing, printing, or chemical manufacturing industries in these countries, and nearly as many as in transport and communications;
  - Including volunteers, nonprofit employment swells to one out of every 14 workers, or 7 percent of the total.
- Expenditures. Nonprofit activity accounts for nearly five percent of the combined gross domestic product of the countries studied.
- Revenue structure. The largest component of nonprofit income is fees and charges, which account for nearly 50 percent of total nonprofit income. Government support is the second-largest source of nonprofit support, accounting for just over 40 percent. Private philanthropy from individuals, corporations and foundations comes in a distant third, with only 10 percent of total support.

Salamon asserted that the spread and growth of nonprofit organizations throughout the world has important implications for the power and role of states and for the governance process. For political parties, the proliferation of nonprofit organizations has disrupted their monopoly on the political process as upstart single-purpose groups emerge and attract popular support. This trend also provides greater opportunities for popular political expression and contributes to the

democratization of political systems. While contributing to democratization, the expansion of nonprofit issue and interest representation can lead to political stalemate and gridlock; specific outcomes will depend on local political traditions, governance arrangements, and leadership skills.

Along with multinational corporations that challenge the premier role of national governments in the international arena, multinational nonprofit networks have also become major actors on the global policy scene. Despite their loose structure, the ability of these networks to mobilize constituencies from around the globe has caused the impact of these networks on both domestic and international policy to grow. Multinational corporations have been increasingly vulnerable to forms of cross-national mobilization by nonprofits. Through access to the press and networks of local activists, nonprofit organizations are increasingly in a position to hold the reputations of large multinational corporations hostage, inducing the corporations to take preemptive action to fend off the risk.

Salamon asserted that, along with a number of other forces, the growth of nonprofit organizations is pushing government into a far different role: a role as *orchestrator* and *collaborator* rather than *monopoly provider* of public services. In other words, states will increasingly manage the activities of a range of non-state actors that provide services directly to citizens rather than attempt to provide all services itself. Salamon contends that the impulse for this transformation has been both conceptual and practical, stemming from both a growing public frustration with the cost and effectiveness of exclusively governmental solutions to complex social, economic, and environmental problems and an ideological commitment to rely heavily on alternative arrangements to address public problems. The result of this transformation has been a massive proliferation of new tools of public action including loans, grants, and vouchers. Their indirect nature and their reliance on a host of third parties to carry out public functions characterize these new tools. As major beneficiaries of this trend, nonprofit organizations have been instrumental in advocating programs that they then help to implement. Nonprofits consequently function both as pressure groups pushing governments to act and as partners helping governments respond to the pressure.

Salamon explained that the spread and growth of nonprofit organizations has facilitated the emergence of a new collaborative style of governance in which government is obliged to share significant portions of its discretionary authority over the spending of public funds with a host of third-party institutions, including a wide assortment of nonprofit organizations. A paradigm shift is therefore under way in the operation of the public sector as we enter the era of “new governance.” This new governance involves some major shifts in how we think about public management and how we approach public problems. The nonprofit sector’s growing availability and its expanding ability to shoulder additional social functions have significantly helped to facilitate the trend toward indirect governance that is now under way. In the process, the nonprofit sector has benefited tremendously, gaining new sources of revenue and new relevance to social problem solving. Salamon contended that the “new governance” is the wave of the future and that states will increasingly have to adjust their structures and their management styles to this new reality of shared rule.

Salamon concluded by noting that the civil sector has clearly arrived as a force to be reckoned with on the global level. While it can at times be a disruptive force, as the recent events in Seattle demonstrated, it is also a potentially positive one, mobilizing citizens yearning for a better life and signaling a new popular willingness to take some initiative in working for the common good. He asserted that a key issue for the next two decades will be how governments at all levels react to these developments. Where governments resist them, difficulties are sure to follow. But where they accommodate the new pressures and join forces with the new organizations, important synergies are possible that may strengthen efforts to deal with public action. For this to be possible, however, new attitudes will need to develop as well as new forms of political and administrative skill. Developing such attitudes and skills are therefore high priorities for the years immediately ahead.

### Transnational Criminal Organizations and Networks

**Louise Shelley** described transnational criminal organizations and networks,<sup>11</sup> warning that, since they are clandestine, knowledge concerning their operations is sketchy at best and would profit greatly from further research. Despite the secrecy that surrounds them, transnational criminal organizations are known to be extensive, and they are growing. Criminal networks are flexible and capable of rapidly changing structure to suit particular missions and activities. Transnational criminal groups incorporate components of licit business (to facilitate money laundering, for example) as well as elements of state governments (to assist in conducting illicit activities with a minimum of interference). In some countries, such as Japan and Italy, organized crime has developed along with the state. In others, such as Colombia, the rise of organized crime has contributed to the collapse of state institutions and the rise of regional conflicts.

Violence and corruption are two potent weapons of organized crime in their struggle with the state. Politicians and law enforcers who subsequently rethink their relationships and crack down on crime groups are subject to particularly violent retaliation. But often collusive relationships are based on the corruption of public officials without any hint of violence. The costs of corruption can be as high or higher than those of organized crime. Corruption reduces the level of foreign direct investment and makes domestic firms more reliant on bank loans. Corrupt countries also have more volatile stock markets, more insider trading and smaller capital markets. Research commissioned by Transparency International reveals that the highest levels of corruption are in many of the transitional societies of the former socialist world and also in those with strong export dependence on oil such as Azerbaijan, Indonesia, and Nigeria, which rank as the most corrupted countries.

The Internet has also proved to be a valuable tool of organized crime, which exploits forms of Internet communication because electronic messages leave no trace and are hard or impossible to trace to their point of origin. Information technology enables criminal groups to operate across borders in an environment essentially free from government controls.

Shelley noted that organized crime might not be an unmitigated bad in some parts of the world.

---

<sup>11</sup> For additional information, see Louise Shelley, "Identifying, Counting and Categorizing Transnational Criminal Organizations," paper prepared for the National Intelligence Council Project.

The proceeds of organized crime may be repatriated and invested in the host country, providing capital for economic development. On the other hand, criminal groups may repatriate little of their capital. For instance, crime groups in Russia and other post-socialist countries usually export almost all of their profits, exacerbating capital flight problems.

Shelley noted that transnational criminal groups can be categorized in a number of ways:

- By country of origin. Italy, Colombia, Mexico, China, Japan, Nigeria, and the former Soviet Union are the major source countries for organized crime groups. In addition, crime groups in Brazil, South Africa, Jamaica, the Dominican Republic, and Turkey may attain greater international significance in the near future.
- By relationship to the legitimate economy. Transnational organized crime groups lie along a continuum in terms of their integration with the legitimate economy. There are many critical points of nexus between the legitimate and illegitimate worlds, ranging from involvement in small businesses of ethnic community members to the ability to obtain public contracts from the state and reap gains from monopolizing privatization offerings. Criminals, once embedded in the legitimate community, rarely behave as legitimate business people.
- By structure. The structure of transnational criminal organizations ranges from the hierarchical structure of the Mafia to network structures employing outside specialists and farming out work as necessary. However, all criminal organizations are highly authoritarian bodies.
- By product. Some criminal organizations deal in one commodity, such as illegal drugs. Others, particularly those from the former socialist countries, are diversified and engage in activities that include illegal arms trade, smuggling of contraband, counterfeiting, money laundering, computer crime, and trafficking in human beings, stolen art, automobiles, and endangered species. It is difficult to assess the effects of diversified criminal activities, where funds are more readily mingled with the legitimate economy and the human suffering is less apparent to the community. The diversified global illicit economy linked to high level corruption and the range of non-drug related crimes have the potential to threaten the social, political and financial order.
- By membership. Given its clandestine nature, it is very difficult to arrive at accurate membership estimates for transnational criminal organizations. Even if accurate head counts could be determined, they would tell little about an organization's strength, its political impact, and the breath of its operations.
- By assets, revenues, and the cost of their crimes. The amount of illicit capital in the world's financial markets is estimated at between half a trillion to one trillion dollars, and this amount increases annually. Gross earnings from trafficking in illegal drugs – the largest source of illegal capital -- is estimated at \$300 billion annually, which equals eight percent of total international trade. Depending on estimates, from \$85–\$300 billion of this amount is available for money laundering. The next ranked crimes in terms of revenue are thought to be arms trafficking and trafficking in endangered species, each of which accounts for \$10-

\$12 billion of revenue annually. Trafficking in endangered species comes under the category of environmental crime, which also includes the illegal disposal of trash and hazardous waste. In fact, trafficking in CFCs is probably the second largest illicit import into the United States after drugs. Trafficking in human beings accounts for \$5-\$7 billion of illicit revenue annually. Theft of stolen art and antiquities is estimated to be a \$4.5-\$6 billion annual business; the profits from this trade have been used to fund drug trafficking in the U.K. and other illegal activities in Italy and Mexico. Other multi-million dollar illicit activities are automobile theft, counterfeiting of currency and products, and theft of intellectual property. Computer-related crimes include child pornography, various financial crimes and attacks on computer databases and systems. It is very hard to measure the revenue from computer-related crimes but, given the explosion in the number of legal prosecutions for these crimes in the last few years, cybercrime is on the rise.

- By terrorist links and political links. Organized crime and terrorist groups have mutually sustaining relationships in particular regions and countries. Cooperation with terrorist groups that destabilize the political structure, undermine law enforcement, and hamper the possibilities for international cooperation in fighting crime may have significant benefits for organized crime. On the other hand, terrorists may use the methods or even the organizations of criminals and their networks to achieve their objectives. Terrorists may also resort to crime to raise the funds needed for their terrorist operations. Examples of terrorist-criminal links include IRA money laundering, Tamil drug trade, KLA drug trafficking in the Balkans, the links between the Colombian drug traffickers and guerillas, mujaheddin in Afghanistan and the drug trade, and Angolan rebels and illicit trade in diamonds. The links between organized criminals and terrorists are much less frequent than the links between organized criminals and politicians. Criminals seek the protective apparatus of the state and the financial benefits which this association can bring. Politicians seek these relationships because they can obtain tangible personal benefits, secure votes and exploit the coercive apparatus of the state to use against their enemies both at home and abroad. A powerful political-criminal nexus exists in many Soviet successor states, Nigeria, southern China, Japan, Colombia, Mexico and Turkey.

Shelley asserted that transnational organized crime groups and their networks will be much more important determinants of international politics and state capacity in 2015 than they are today. Already the crime issue figures significantly in international diplomacy in many regions of the world, and the exchange of law enforcement personnel is assuming an importance that diplomats once assumed. This trend will accelerate over the next decade because the financial resources of the crime groups are increasing along with their political power. The failure of legal systems to keep pace with globalization, intelligence services to understand and assess the centrality of the crime issue, and the development of a digital era without adequate thought to regulation all portend a very different world in 2015, a world in which the nation state will be a less important actor on the international scene.

Shelley asserted that countries with the following conditions will be the least vulnerable to the rising economic and political power of organized crime:

- The state exhibits a large legitimate economy where domestic or foreign organized crime is a small share of the economy.
- Non-organized crime related corruption, such as that measured by Transparency International, is not so strong as to make the state vulnerable to organized crime penetration of civil society.
- A developed civil society exists.
- The rule of law is accorded prominence.
- Citizens and institutions are cognizant of the threat of organized crime and ready to use state resources to address the problem.
- The financial resources of criminals are not invested in the economy to such a degree to make them major economic actors.
- Minority and ethnic group members are accorded social mobility.
- The state has the capacity to safeguard its territory.

Shelley noted that, at the present time, there are relatively few countries in the world that fit these conditions.

---

In summary, the emergence of increasingly influential non-state actors is having significant effects on the nation-state. Multinational corporations and nonprofit organizations are challenging the predominance of the state in providing services to their citizens. A new era of governance may have dawned, in which the focus of state governance is shifting from traditional monopoly provider of services to one of manager of a range of non-state actors providing services directly to citizens. The increased pervasiveness of non-state actors has led to calls for greater transparency regarding their operation, funding, organizational structure, and membership, so that both governments and individuals can monitor the performance of non-state actors more effectively.

Transnational criminal organizations and their networks pose a serious challenge to state capacity, legitimacy, and cohesion. Criminal organizations have been able to co-opt major portions of the governments of several states, making them “captive states.” Organized crime may also create “criminal” states, a condition in which the state’s government executes the policies of criminal organizations. Nation-states are currently not well -equipped to counter transnational crime.

When assessing the impact of non-state actors upon the nation-state, the relationship between state capacity, legitimacy, cohesion, authority, control, and the condition of civil society does not appear to be straightforward. Significantly, it appears that a state’s government can delegate significant *control* over activities within its borders to non-state actors – in effect reducing state *capacity* – without serious consequences in terms of *legitimacy* as long as:

- the standard of delegated services meets or exceeds popular *expectations*,
- the state retains the *authority* to regulate effectively the actions of non-state actors to which it has delegated control, and
- the citizenry attribute the new role of non-governmental organizations to a wise decision by the government to find creative ways to improve quality of life. The government’s

legitimacy may suffer if citizens perceive that its failure to provide services in the past was due to ineptitude, the result of corruption, or lack of concern for the masses.

Depending on the nature of the delegated services, the reduction in state capacity may be accompanied by an improvement in the quality of *civil society* (e.g., the provision of health care by a nonprofit organization more effectively than the state has been able to provide it). This improvement should increase national *cohesion*:

- behind the ruling regime if it has maintained or improved its legitimacy,
- behind some alternative political or social movement if the ruling regime has lost its legitimacy.

### Emerging Standards of Governmental Performance

Given the increased involvement of non-state actors and networks in carrying out essential elements of state performance, conference participants considered whether there are minimal standards that states must maintain to preserve their legitimacy and cohesion. Discussion focused on identifying those state behaviors and societal conditions that were most likely to protect citizens from violence and poverty. Specifically, the project turned to recent research on state failure, where aggregate statistical analyses have enjoyed success in identifying what can be considered minimum standards of state performance. These studies have examined historical cases in which states succumbed to violence, which encompasses both intrastate war and various kinds of intrastate conflict, as well as instances where states have experienced financial crises, which include both monetary and banking crises.

**Ted Gurr** briefed conference participants on the leading empirical research pertaining to violence. This work included:

- Gurr's State Failure Project, which identifies significant factors predicting to internal war, abrupt regime transitions, and genocides and politicides;
- **Bruce Russett's** analyses of the "Kantian peace," i.e., the conditions that determine the likelihood of interstate war between pairs or "dyads" of states;
- **Paul Collier's** work on the preconditions for internal wars from an economic perspective; and
- **James Fearon's** examination of the determinants of insurgency.

Gurr stressed that all of these projects viewed the state as a "black box" that takes inputs and converts them to outputs. Inputs typically include characteristics of the international system (e.g., trade interdependence and shared membership in NGOs), societal characteristics (e.g., an educated population, material resources, social capital, socioeconomic performance characteristics), and social and political institutions (cultural cohesion and democratic governance). Outputs could include conflict management (e.g., avoid/win interstate and intrastate wars, maintain civil peace) and political stability (e.g., avoid abrupt regime change, avert humanitarian crises). Gurr observed that empirical studies using this approach usually did not measure variables in the "state capacity" box, such as the legitimacy of a ruling regime, the

quality of its leaders, the efficiency of government decision-making, bureaucratic competence, and the state's ability to mobilize resources.

**Russett's** study<sup>12</sup> covered the period 1885 to 1992. His dependent variable consisted of whether or not a militarized international dispute occurred between pairs of countries (i.e., dyads) in a specific year. Significant independent variables included the characteristics of the political regime (on Gurr's scale from democratic to autocratic), the degree of trade interdependence, the number of international organizations in which a given pair of states shared membership, alliances, relative power, and distance between the states. All of these factors had some influence on the likelihood of a dispute occurring, but democratic forms of government, trade interdependence, and shared membership in IGOs were the most significant variables postdicting to the initiation of interstate war. Thus, if a given dyad was solidly democratic and closely linked, both economically and through mutual membership in many international organizations, Russett's analyses indicated that the risk of militarized conflict diminished on average by about 75 percent.

**Gurr's** State Failure study<sup>13</sup> found that three variables – trade interdependence, democratic regimes, and quality of life (and its correlate, GDP per capita) – postdicted to intrastate conflict. The study noted a strong interaction effect between democracy and quality of life: at low levels of quality of life, democracy is associated with high risk of failure, while, at high quality of life, democracy is associated with low risk of failure. Gurr also showed that, whereas democracies are less prone to intrastate conflict initiation than autocracies, countries in the process of democratization appear to be more prone. Gurr noted that the State Failure studies had experimented with direct indicators of state capacity, e.g., government revenues and corruption indices, but none of these had effects strong enough to enter the final models.

**Collier's** World Bank project<sup>14</sup> considered three economic factors that were believed to contribute to civil conflict: greed, grievance, and start-up funding. The project postulated that civil conflict or rebellion is largely about predation on natural resources (e.g. agricultural, mineral). Collier found that greed factors are most important – ethnic and other rebels are motivated more by desire for and exploitation of material goods than by grievances. Two other factors were found to be significant: support from diaspora populations outside the country and ethnic divisions within it. Counter-intuitively, the most ethnically divided countries are not the most conflict-prone. Rather, it is the presence of one or two fairly large but not clearly dominant ethnic groups that leads to conflict initiation. By contrast, both completely homogeneous societies such as South Korea, and highly factionalized ones such as Indonesia, have a much lower probability of civil war initiation.

**Fearon's** insurgency project, as in Collier's analysis, found that ethnic diversity in a state does not increase the likelihood of civil violence. What did prove to be a powerful predictor of conflict was the economic growth rate, which remained highly relevant even after controlling for

---

<sup>12</sup> John R. Oneal and Bruce Russett, "The Kantian Peace: The Pacific Benefits of Democracy, Interdependence, and International Organizations, 1885-1992," *World Politics* 52,1 (October 1999): 1-37.

<sup>13</sup> For details, see Ted Robert Gurr et al, *State Failure Task Force Report: Phase II Findings*, 31 July 1998.

<sup>14</sup> Paul Collier and Anke Hoeffler, "On Economic Causes of Civil War," *Oxford Economic Papers* 50 (1998), 563-73.

economic indicators such as per capita income. Fearon stressed that the presence of democracy, high population growth rates, and population density were *not* important indicators for forecasting impending insurgency. He observed that, since established democracies were quite wealthy, it was difficult to disaggregate the democratic government and economic indicators.

Striking parallels exist among these studies. International systemic factors are important: political and economic interdependence are consistent indicators, not of state weakness, but of conflict avoidance. The one international factor that was demonstrated to be destabilizing is support from diasporas. Domestic economic performance is a critical factor, economic *growth rate* being more important than *level* of economic well being. Distributional issues within a society are important, and quality of life is more important than GDP. Democratic governance looks consistently important when combined with economic prosperity/growth. Ethnic heterogeneity as such is not a strong risk factor. What counts is whether the political and economic playing field is tilted against minorities, i.e., whether minorities experience discrimination in access to power and prosperity.

Gurr stressed that these studies postdicted the initiation of violence in 70% - 80% of cases, with errors equally divided between false positives (cases where models incorrectly postdict to state failure) and false negatives (cases where models incorrectly indicate that failure will not occur, when failure does in fact occur). The false positive/negative issue currently makes them unsuitable as an early warning system. To overcome this problem, Gurr called for a balanced approach encompassing structured, quantitative analyses and the opinions and insights of experts. He described two approaches that might prove fruitful in this regard. First, **Marc Levy** is studying the utility of surveying expert opinion to obtain comparative measures of state capacity, i.e., questions about the consistency of the rule of law, the skills of civil servants, and national and local authority's ability to deal with emergencies and other crises. Second, **Ernest Wilson** has asserted that one can engage desk officers and other country specialists from the intelligence community in this process, based upon warning indicators from empirical models. Empirical research identifies cases where indicators have warned that the probability of violence is on the rise, and the country specialists use their detailed knowledge to assess how particular governments are likely to perform within these constraints.

**Carmen Reinhart** briefed the conference on her research concerning financial crises, which certainly challenge state capacity and could be indicative of a state's failure to uphold minimal standards. Reinhart distinguished among three kinds of financial crises: currency or exchange rate crises, banking crises, and crises that include both currency and banking dimensions. She found that four factors point to an impending financial crisis: asset price bubbles (real estate/equity booms), overvalued currencies, a slowdown of economic growth, and high levels of debt (especially short-term debt relative to holdings of hard currency).

On crisis prevention, Reinhart expressed skepticism that institutions like the IMF could compel states to address pitfalls, since states tend not to heed warnings, believing that a crisis is not possible because "this time, things are different." She asserted that states can play a larger role in both crisis management and in minimizing the severity of a crisis. However, significant differences in ability to manage crises exist between emerging market economies and more developed economies. Reinhart echoed **Ann Florini** by observing that the presence of

transparency improves crisis prevention and management. Authorities should announce what they are doing and what they intend to do to combat the crisis. Governments can reduce the severity of a crisis by displaying the willingness to make quick adjustments in fiscal, monetary, and regulatory policies.

Reinhart also discussed the contagion mechanisms through which financial crises are transmitted to other states. While trade interdependence is a factor, financial relationships are more important. For example, with regard to the Asian crisis, the presence of common Japanese bank lenders facilitated the spread of the crisis to Thailand, Korea, and other countries.

Turning away from the quantitative research sphere, **Ted Gurr** noted that observers seem to recognize good and bad governance on a macro level when they see it. For example, when quantitative models have produced a false positive or a false negative, the presence of extremely good and extremely bad government respectively appeared to be a decisive factor in rendering forecasts incorrect.

**I. William Zartman** described several characterizations for state collapse that fall outside the ability of quantitative analysis to predict. For example, regimes can “quit.” In this case, the frustration resulting from trying to cope with globalization, increasingly numerous non-state actors, and high popular expectations may tire individual regimes to the point that the leadership steps down. A state may be “privatized” when non-state actors take over the functions that the government has proven unwilling or unable to perform. A state may be described as “disappearing” when its government becomes so ineffective at providing for its people’s needs that the citizenry no longer expects it to have any real capacity. The people look elsewhere for provision of vital security, health, and economic functions, perhaps finding that non-state actors (including criminal organizations) step in to fill the state’s shoes, and do so quite effectively. The regime may continue to exist as an entity, but it plays very little role in controlling activities in its territory, and its legitimacy is destroyed. Alternatively, if state cohesion was initially weak, the regime may collapse as insurgency movements seek to take its place. In the absence of a clear successor to the previous regime, the state becomes a “collapsed” state. It may also be useful to create the label of “coping” state. In a coping state, the government manages to maintain an adequate level of capacity, cohesion, and legitimacy to remain in power, but is not able to capitalize on the changing international environment to create increased quality of life for its people.

### *Conclusions*

Conference participants reached agreement on five points:

- States will remain the principal actors in the world of 2015.
- Unilateral state action will become less effective as transsovereign problems become more prevalent.
- Ongoing globalization and the increasing influence of non-state actors will pressure states to change the *manner* in which they exercise authority over affairs in their territories.
- The increased numbers and influence of non-state actors that operate across state boundaries,

and the need to grapple with transsovereign problems, will tend to create increasingly uniform standards of acceptable governmental performance.

- Given the diversity of influences at work, there will not be any single predominant outcome in terms of nation-state adaptation to evolving international and domestic environments.

States will remain the principal actors in international affairs in the world of 2015 because they are well structured to provide certain important services such as domestic security and the provision of justice. In addition, the state has proven itself to be a very flexible and adaptable form of political organization. However, project participants differed considerably regarding the degree of predominance states would retain. This range of views primarily stemmed from differing beliefs regarding the impact of globalization and the changing role of non-state actors.

The development of a more interdependent world as globalization progresses will create more and more transsovereign problems that are not responsive to unilateral state action, but rather demand cooperative solutions involving many different kinds of actors in addition to states. In such cooperative ventures, the state must share power with other entities. These problems include the increasing porosity of borders, the growth of transnational crime, a general lack of transparency among non-state actors, the anticipated rapid growth of worldwide energy demand and its impact on global warming, and the concentration of population growth among the world's poorest people.

The rise of non-state actors and the proliferation of transsovereign problems will pressure states to change the manner in which they exercise control over affairs in their territories.

Governments will change from monopoly providers of services to managers of services that are provided both by the state and by a variety of non-state actors. A principal reason for this development is because popular expectations concerning the services that the state should supply have expanded since World War II. Many states are experiencing difficulty providing all of these services, and non-state actors, including criminal organizations, may step in to fill state capacity gaps. In other cases, governments may be capable of performing a given function, but it proves more efficient to delegate the responsibility for providing this service to a non-state actor specializing in the functional area in question.

Since non-state actors will wield an increasing degree of influence through 2015 and beyond, they increasingly will help to set global state performance standards. Pressure will continue to build for developing states to democratize and to accept the economic and fiscal standards embedded in the Washington consensus, as well as the standards for civil society included in the charters of many nonprofit and intergovernmental organizations. Given the increasing pervasiveness of information technology, the expectations of citizens in all states may increasingly reflect common, worldwide standards. Individual state governments can seek to raise or lower the expectations of its people away from increasingly global standards, but doing so might require that state to isolate itself from mainstream developments. Depending on its capacity, such a state could become a destabilizing influence on the international system as its standards increasingly deviate from the mainstream.

Since each state possesses a unique combination of capacity, legitimacy, and cohesion, and will experience the effects of globalization and the rise of non-state actors differently, individual

states will exhibit a wide range of responses to these trends. Some states will actually improve their legitimacy and cohesion by skillfully adapting to changing circumstances. A number of states will merely cope with the new developments: their governments will remain in power, but these states will not contribute meaningfully to solving pressing transsovereign problems, and their citizens' quality of life will lag behind. A number of states will not be able to cope with the challenges confronting them. Their governments may slowly lose legitimacy and collapse at some point, representing a risk to regional and international stability. Project participants generally agreed that a better understanding of the factors important for improving the chances of successful nation-state adaptation was an important area for further research.

*Principal Project Participants*

Frances Burwell – Executive Director, Center for International and Security Studies at Maryland

Paul Collier – The World Bank

Maria Green Cowles – George Washington University

Maryann Cusimano – Catholic University of America

Job Dittberner – National Intelligence Council

James Fearon – Stanford University

Ann Florini – Carnegie Endowment for International Peace

Stephen Flynn – Council on Foreign Relations

David Gordon – National Intelligence Council

Carole Graham – Brookings Institution

Ted Robert Gurr – University of Maryland

Bob Houdek – National Intelligence Council

Anthony Judge – Director, Communications and Research, Union of International Associations

George Kolt – National Intelligence Council

Stephen Krasner – Stanford University

Bill Lahneman – Center for International and Security Studies at Maryland

Ellen Laipson – Deputy Director, National Intelligence Council

Marc Levy – Columbia University

Anna Ohanyan – Syracuse University

Clyde Owan – National Intelligence Council

Randy Pherson – Evidence Based Research Inc.

Helen Purkitt – US Naval Academy

George Quester – University of Maryland

Carmen Reinhart – University of Maryland

Richard Rosecrance – Director, the Ronald W. Burkle Center for International Relations,  
University of California, Los Angeles

Bruce Russett – Yale University

Lester Salamon – Director, Center for Civil Society Studies, The Johns Hopkins University

Thomas Schelling – University of Maryland

Enid Schoettle – National Intelligence Council

Louise Shelley – Director, the Center for Transnational Crime and Corruption, American  
University

Richard Smith – National Intelligence Council

John Steinbruner – Director, Center for International and Security Studies at Maryland

Carola Weil – Executive Director, Center for International Development and Conflict  
Management

Jonathan Wilkenfeld – University of Maryland, College Park

Phil Williams – Director, the Ridgway Center, University of Pittsburgh

Ernest Wilson – Director, Center for International Development and Conflict Management

I. William Zartman – School of Advanced International Studies, The Johns Hopkins University

---