



# Public Governance in the Age of Globalization

Edited by

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# Foreword

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Karl-Heinz Ladeur, Florence/Hamburg, January 2004

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## Chapter 1

# Globalization and Public Governance – A Contradiction?

Karl-Heinz Ladeur

#### I. Globalization and its Discontents

This book is devoted to the analysis of the difficult relationship between 'globalization' and 'public governance'. Both concepts may appear to be so all embracing and 'global' that their use might, in itself, require an explanation. The chapters of this book try first to explain what, with respect to 'public governance', 'globalization' is not: it is not the invocation of a chaotic unstructured process of dissolution of public order as it has been conceived of in the context of the 'Westphalian System' as established in 1648. Nor is it equivalent to a take-over of political power by multi-national 'stateless' enterprises with a corresponding tendency towards abolishing state-based democracy. Many phenomena which are attributed to the process of globalization, in particular the crisis of the welfare-state, do not have much to do with a challenge of the sovereignty of the state by multinationals that look for new opportunities for capital investment and orient their decision-making at global markets.

With good reasons, P. Krugman<sup>3</sup> has argued that the effective influence of globalization on the nation state is still negligible when compared to national economic factors: major sectors of the economies of the leading industrial countries develop without the underlying major impact of the world economy.

In spite of this request for a more balanced and differentiated judgement, we have to register that the important phenomenon of 'globalization' is taking place.<sup>4</sup>

- 1 Cf. Wolfgang H. Reinicke, Global Public Policy: Governing without Government (Cambridge, Mass.: The Brookings Institution Press, 1998).
- 2 Cf. in particular Linda Weiss, *The Myth of the Powerless State* (Ithaca: Cornell University Press, 1998).
- 3 Cf. Paul Krugman, Pop Internationalism (Cambridge, Mass.: MIT Press, 1996).
- 4 Cf. John W. Meyer et al., World Society and the Nation State, 103 AMERICAN JOURNAL OF SOCIOLOGY 1998, p.144; David Held et al., Global Transformations: Politics,

However, this development is deployed in a much more institutionalized way than many critics would have it. There are important transnational (international and inter-societal) and supra-national elements of a new public order, which remain, however, beyond the traditional borders of the state but not completely beyond the state as such. New organizations and institutions are brought to bear on economic processes that impose a legal and political structure on global economic processes. The crises on the global financial markets<sup>5</sup> do not call this hypothesis into question; they do, however, demonstrate that there is no harmoniously fine-tuned coordination between economic and legal-political evolutions.

In spite of the fact that, in a sense, we also had a global economy before World War I, new phenomena, which may justify the use of the concept of 'globalization', are to be taken into account by virtue of the increasing importance of 'transnational' forms of economic exchanges.

'Transnational', in this sense, means processes which develop beyond the impact of the well known international government-based treaties. This is, in fact, an important element of the transformation of economic transactions on world markets. At the end of the day, one should, of course, not forget that the economic systems at the beginning of the 20<sup>th</sup> century were the object of a deeply rooted process of internationalization. However, former processes of globalization were much more closely related to the forms of the traditional nation state and its legal forms of mediation between internal and external relationships. The state itself has never been a closed form, but its sovereignty was demonstrated by the fact that, even in liberal states which recognized freedom of internal competition, the state used to control the external economic relations with firms in other countries very intensely/strictly. This earlier form of globalization was much more closely linked with the international state-system and the ideas on the mutual advantages of international economic relationships.

#### II. Globalization in the 1920s – a Lesson which has to be Learned

It is necessary to remember this past epoch of economic history if one wants to do justice to recent evolutions of the globalized economy. This is all the more so because the first World War between the major industrialized countries of the time and, moreover, the crisis of the world economy in the 1920s as well as the reactions it provoked from governments should commend us not to consider it as a simple

Economics and Culture (Stanford: Stanford University Press, 1999); Gunther Teubner (ed.), Global Law without a State (Aldershot: Dartmouth, 1997).

<sup>5</sup> Cf. Robert O. Keohane/Joseph S. Nye Jr., Introduction, in Joseph S. Nye and John D. Donahue (eds.), *Governance in a Globalizing World* (Cambridge, Mass.: The Brookings Institution Press, 2000), p.1.

confrontation of national (i.e., democratic) versus transnational (global, undemocratic). The re-nationalization of economic policies produced devastating consequences which may shed some new light on the sometimes chaotic reactions of emerging global institutions such as the World Bank and the IMF, which try to tackle crises as global phenomena, while nation states try to avoid protectionist state-oriented policies. The rise of fascist and national socialist movements, as well as anti-Semitism, were the phenomena that accompanied earlier anti-globalization movements which regarded cosmopolitan Jews as the core of a conspiracy against nations and their autonomy.

The proliferation of crises in the global financial economy is not a new phenomenon, either: the 'Black Monday' on Wall Street in 1929 and the breakdown of the Austrian bank 'Österreichische Creditanstalt' in 1930 provoked worldwide crises.7 And one should not forget that reactions of nation states consisted of a renationalization of economic policies and a reduction of international co-operation. Instead, states focused on protectionist measures as compensation for the destabilization of the world economy. The political and economic consequences of this policy are well known. The management potential of European states in reacting to global crises should not be overestimated. One cannot simply assume that the management potential has much improved and the potential of a Keynesian policy of stimulation of consumption has more or less been exhausted. In comparison to the crisis of the late 1920s and early 1930s, the last major financial crisis, which began in 1997 in Thailand and which, fuelled by panic reactions in many countries, proliferated all over the world, turned out to be rather harmless. This shows that international institutions for the control of financial markets work - this does not exclude that they need to be improved, but it demonstrates that they can be improved. Thus it is not at the level of states but at transnational level that solutions have to be found.

The present anti-globalization movements have not produced aggressive ideologies, which might be compared to the ideologies of their counterparts in the 1920s. However, beyond their very concrete, but politically controversial, claim for a Tobin tax<sup>8</sup> in order to help cool on global speculation – an idea which is not even accepted by the researcher who has given his name to this type of tax – the ideas of the anti-globalization movements remain vague. The movements themselves seem to

- 6 Cf. Keohane and Nye, supra n. 5, p.10.
- 7 The Economist, 18 October 1997; cf. for this earlier period of globalization Harold James, The End of Globalization. Lessons from the Great Depression (Cambridge/Mass: Harvard University Press, 2001), who is more optimistic with respect to the new wave of globalization because technological and economic needs are more pressing and because of the relative strength of present international organizations.
- 8 Cf. James Tobin, Interview, *Der Spiegel*, 2 September 2001; for a critique of the illusions about the Tobin Tax cf. also Olivier Storch, *La Taxe Tobin: Revue de la pensée magique*, manuscript 2001.

feed on an antithetical distance from globalization rather than on a creative idea of how to impose a rational structure onto it. Fighters against globalization seem to be driven more by resentment than by reason. They differ from the rather nationalistic militancy of their predecessors in the 1920s by their passive approach: they seem to project their search for authenticity and identity within the nation state (which, on different occasions, is an object of fight itself) and on peoples of Third World countries. The contribution of Karl-Heinz Ladeur tries to question some of the arguments which are put forward by anti-globalization movements. Moreover, the search for new institutions and paradigms that might introduce more structure and homogeneity in globalization is a general focus of this volume.

This introduction is only meant to draw attention to the fact that globalization is such a heterogeneous, provocative, irritating and all-embracing phenomenon that more hidden causes of economic, political and cultural crises might not obtain sufficient attention in public discussion. This is also due to the fact that the deep structure of public rationality is centred on the state, and this goes far beyond the agenda of public decision-making; it has constituted the Western hierarchical view of society including the self-image of the citizen as a 'public person' being modelled on the sovereign 'Westphalian' state with both its distinctions and abstractions, and the movement of self-transformation of the 'subject' beyond the linkages of history and tradition in particular. This basic relationship permits the tendency to project the causes for the challenge of this development as being on the outside, being caused by the multinationals, etc. This relationship between both the state and the citizen as 'subjects' should be deconstructed. Moreover, the presupposition that the state is, almost necessarily, the instrument of democratic self-determination should be called into question as well. This is all the more so if one takes into consideration the character of so many Third World states which are looked at in a purely hypothetical way, instead of taking into consideration their functioning in a more realistic way.

#### III. Globalization - Whether Good or Bad - Should not be Overestimated

The contributions to this volume take a more detached view: they do not presuppose that globalization is the pre-eminent characteristic of the transformation of the economic system that we have witnessed in recent times, nor do they presuppose that globalization takes place in a chaotic unstructured way without any institutionalization or rationality. However, globalization is actually taking place, and it provokes fundamental transformations of the economic, legal and political systems. This is all the more so if one takes into consideration the changes which are derived from the technological innovations which cannot be identified with the phenomenon of globalization as such, though both evolutions are interdependent and mutually reinforcing.

Globalization, as opposed to former developments of internationalization of the economy, is definitely characterized by its transnational form, i.e., it is based on exchange processes which, more or less, bypass both the state and the traditional international character of the world economy in the past. It is an important characteristic of the globalization process that it produces more spontaneously selfgenerating flexible ways of co-ordination and co-operation among firms, instead of following the established tracks of international co-operation among states, even if they were established in the interest of firms. But in the past, the public forms and instruments including international treaties between states were much more important as institutions for the mediation and the establishment of a legal basis for private contracts and transactions. The new forms of co-ordination are generated in a bottom-up, instead of a top-down, approach; they create self-stabilizing networks of inter-relationships from which expectations which help orient participants to develop trust can emerge<sup>9</sup> – a version of trust in the continuity of the network itself, not just in the personal reliability of the partners about which one could collect personal experience 10 (note that this was the basis of the famous lex mercatoria in mediaeval ages). The generation of flexible institutions takes places beyond the state; it follows from the shared interest in establishing stable co-ordination patterns which is made possible by the increasing interest in the quality of complex products, the reliability of relationships, the broadening of the perspectives of the participants through the commonality of interchanging roles (participants change from the role of sellers to that of buyers and vice versa on regular terms), 11 the importance of trust, the complexity of contracts, and the diminishing impact of state law on practices of contract-making.

### IV. The Emergence of Networks and of a New 'Paradigm'?

All this is the reason why the contributors to this volume often refer to the concept of 'network' which – in spite of the fact that it is fashionable now – is crucial in the sense of referring to the rise of a new 'relational rationality' (McClennen), as opposed to a traditional rule-based universal rationality linked to the rise of the

- 9 Cf. Keohane and Nye, supra n. 5, p.12.
- 10 Cf. Jean-Marie Guéhenno, *The End of the Nation State* (Ann Arbor: Michigan University Press, 1995).
- 11 Cf. Teubner, supra n. 4; Christoph Möllers, Globalisierte Jurisprudenz: Einflüsse relativierter Nationalstaatlichkeit auf das Konzept des Rechts und die Funktion seiner Theorie, in Michael Anderheiden, Stefan Huster and Stephan Kirste (eds.), Globalisierung als Problem der Gerechtigkeit und der Steuerungsfähigkeit des Rechts, ARCHIV FÜR RECHTS- UND SOZIALPHILOSOPHIE, BEIHEFT 79 (2000), 41-60.

modern state and modern law.<sup>12</sup> Traditional forms of 'situational' patterns of coordination had been linked to local parochial practices of co-operation; they had excluded foreigners whereas the new forms of 'relational' heterarchical coordination are global: they allow for stability under conditions of complexity and may establish trust among strangers. This spontaneous generation of norms has occurred at all times, especially in the economic system, but it has been brought about much more slowly:<sup>13</sup> economic practice has produced 'boni mores', commercial habits, private standards, general experience, etc., which were always the necessary basis for the interpretation and transformation of state-based domestic and international law. They were needed for the specification of private law in particular.

However, private networks of inter-relationships nowadays are much more dynamic, and they allow for much more self-stabilization than in the past, because participants can no longer just presuppose the general standards of expectations enshrined in boni mores habits, etc., they have to include more general interests in contract-making, they have to broaden the horizon of decision-making and, at the same time, they have to change relationships continuously. This is why participants can neither wait for the state to come up with new rules, nor for new private standards (new experience) to be brought about spontaneously. Private exchange relationships have to integrate an element of institution building which opens the way for new options, without doing away with all legal constraints. 14 It is a kind of hybrid linkage between individual exchange and the generation of flexible situational constraints and expectations, which allows for new relations to be brought about. The evolution of spontaneously generated patterns of behaviour and co-ordination has to be monitored, evaluated, varied and renewed, because state law is not flexible enough to adapt to the new requirements of a globalized and, above all, dynamic economy. Reflexive, strategic and procedural constraints of rule- making are increasingly important. This is also why the international, but still state-based, lawmaking treaties lose their importance.

However, it has to be recalled that this is just a repercussion of a development, which takes place within the domain of domestic law, as well. In both domestic and transnational legal relationships, it can no longer be presupposed that the judge will be able to provide sufficient specialized knowledge and competence so as to come up with adequate legal solutions for such highly complex cases. And this is another reason why the common interest of transnational firms in establishing a reliable legal basis for innovative complex contracts, etc., increases. And, at the same time,

<sup>12</sup> Cf. Stefan Weber, Medien - Systeme - Netze. Elemente einer Theorie der Cyber-Netzwerke, Bielefeld: transkript 2001, p.47s.

<sup>13</sup> Cf. Teubner, supra n. 4.

<sup>14</sup> Cf. Keohane and Nye, supra n. 5; Jane E. Fountain, Building the Virtual State (Washington D.C.: The Brookings Institution Press, 2001), pp.74ff.

this is the basis for the productivity of the network concept that, above all, indicates the rise of a new logic which accepts the potential of heterarchical inter-relationships to generate 'emergent' patterns of co-ordination which may replace universal rules imposed from above. If one takes into consideration this intertwinement of domestic and transnational forms of new elements of spontaneous law, the rise of global forms of co-ordination beyond public international law can no longer be regarded as anomalous deviations from the right way of state-based law, but as the expression of an evolutionary step towards new forms of the self-organization of societal norms which go beyond the official legal system.

#### V. Against Simplifications which are Far Spread among Anti-Globalists

The contributions to this volume draw on the traditional forms of linkages between law and the spontaneous generation of rules and standards, such as experience, which was closely related to state law. On the other hand, they go further in the analysis of post-modern forms of institutions and law beyond the state in order to discover new patterns of self-organization which introduce more reflexivity and potential for self-observation and self-transformation of relationships into legal practices. In a first step, it should be retained that transnational legal forms do not just oppose state sovereignty and the requirements of justice hammered out in state law from outside, but that they react to a fundamental transformation in the economic system, which is due to increasing levels of complexity and the rise of a new paradigm of 'relational rationality' which is based on the assumption of the creative potential of heterarchical patterns of the inter-relationships emerging from transnational new dynamic economic practices.

If one takes into consideration this evolution of a modern version of transnational self-organized patterns of co-ordination, which are, at the very least, a functional equivalent of the law and its classical role of stabilizing expectations, one has to accept from the outset that globalization cannot be reduced to the arbitrary economic behaviour of some multinationals which have 'gone wild' simply because they undermine the democratic legitimacy of both the law and the state, and create chaos in the world economy. On the contrary, there is a new set of transnational, international and state-based institutions whose contradictions have certainly not yet been managed, but whose potential, first of all, has be realized and described in terms which do not just reduce the new phenomena to deviations from a fixed set of 'normal' institutions. The simplified antithetical schematic confrontation of 'the' state and multinationals, which has been widely diffused among groups of the antiglobalization movement is problematic in the following two ways. On the one hand, the new institutions are either not taken into account at all, or they are reduced to empty shells open to be exploited by multinationals. On the other, they are evaluated in a one-sided way and are held responsible for all kinds of perverse effects

(aggravation of social conditions of workers, children, and deterioration of the environment).<sup>15</sup> The assumption that globalization has an inevitably negative impact on both living conditions and the environment is far from being obvious and needs to be reconsidered.

The incompatibility of globalization and environmental protection is equally doubtful. Environmental protection, as many environmentalists conceive it, is inefficient and expensive, 16 and the decline in concern for the environment (a phenomenon that can be observed in most countries) is, at least partly, due to the fact that it is ideology, and not a rational strategy taking economic constraints into consideration, that dominates the international discussion. Environmental problems in Third World countries do not seem to have their primary cause in globalization; on the other hand, the diverging priorities in Western and underdeveloped countries have to be considered. The legitimate concern that the economic model that has evolved in the Western world could not be expanded to a global economy may be confronted with the counter-argument that the exclusion of the Third World from the world economy altogether would have devastating effects, as well. Moreover, behind the criticism of a shift of work-intensive production to Third World countries, there is often an unwillingness to accept the constraints that the First World is exposed to, and no concern for the future of the Third World. The same is valid for 'social standards', the imposition of which might replace bad working conditions by no work at all. The rise of the knowledge economy in developed countries, which includes the integration of Third World countries into a distributed network of production, will have a spill-over effect even if, at a first stage, only work-intensive production is transferred to underdeveloped countries. This step towards an integration of the world economy will necessarily spread new working experience in the non-industrialized world.

The argumentation of the critics in the anti-globalization movement is also characterized by other contradictions, in particular, by an illegitimate combination of normative and factual views with regard to the relevance of democracy. First of all, the abstract potential of democratic government is identified with the essence of the state, whereas the reality of anti-democratic government is regarded as but one of the phenomena of globalization. Globalization, in this view, undermines the immanently democratic substance of the state. Most Third World countries do not have democratic governments, the reinforcement of which might exercise a benevolent influence on the living conditions of their populations. On the contrary, it is to be assumed that the opening of such states towards the world economy might instead have a healthy influence on their social structure because it may limit the destructive exercise of public power. However, even with regard to developed and

<sup>15</sup> Cf. Björn Lomborg, The Skeptical Environmentalist (Cambridge: Cambridge University Press, 2001).

<sup>16</sup> The Economist, 29 September 2001.

democratic states, the same illusions concerning the action potential of governments are widespread.

#### VI. The Limits of the Nation State in Managing Complex Problems

The potential and real consequences of globalization are not denied by its protagonists but the steering potential of the democratic state under conditions of uncertainty is sometimes no more than a myth. It is wishful thinking to assume that a democratic state might be able to 'steer' a modern economy whose success was based on its autonomy, its independence from state influence and the 'good intentions' that it might also be based on. A liberal democracy presupposes the priority of individual 'negative liberties' over public planning of economic development and the high value attributed to the possibility of binding uncertainty by establishing a distributed system of rights.<sup>17</sup> The normative limits of this system of trial and error have to be determined by democratic laws. However, critics of globalization are often not very explicit about the role attributed to the state in guaranteeing 'justice' in a society, which is continuously involved in a process of self-transformation. It has to be recognized that globalization may have detrimental effects because of the dynamic of change that it imposes on countries which may not be well prepared for it. However, one should not forget the disastrous consequences, which have been produced by approaches to overcome the autonomy of the economic system.

At this point, a look at the limited potential of nation states to formulate 'policies of justice' might be helpful: the overestimation of the phenomenon of globalization may also be due to the fact that the causes of the growing importance of global networks of transnational inter-relationships which are to be seen in the rise of the 'knowledge economy' have a strong internal effect, as well. The intertwining of different complex paths of evolution has to be taken into consideration, but this should not be misunderstood as referring to the assumption that political processes are being subjugated to the economic system. Many disruptive evolutions that we have been able to observe would also have taken place within a closed economy. The potential of the nation state to impose rules on a dynamic economic system is even without a globalization process - rather limited. But this is mainly due to the process of devaluation of public knowledge (experience which is open to everyone, etc.) and the transformation of hierarchical inter-relationships in organizations, as well as the growing importance of the future-oriented strategies of enterprises as opposed to path-dependent search processes. This evolution is accompanied by the increasing importance of knowledge as an economic resource. As a consequence.

<sup>17</sup> Cf. Karl-Heinz Ladeur, Negative Freiheitsrechte und gesellschaftliche Selbstorganization (Tübingen: Mohr, 2000).

the traditional instruments of sovereign state power lose their impact on the economic system. The public interest can no longer be formulated and put into practice by general norms. Instead, it is increasingly important to use public-private partnerships, the 'regulation of self-regulation' and other indirect forms of stimulating the productive exercise of state power in order to allow for an experimental, proactive and open conception of private intervention. The crisis of the welfare state is a home-made one. Moreover, it does not have much to do with globalization.

#### VII. Government and Governance

When the authors of this volume talk about 'public governance', they always bear in mind that globalization should not be regarded as a tendency which undermines state sovereignty from outside, and that this development could be compensated only by either strengthening the nation state (and, at the same time, blocking globalization) or by establishing the state model itself at global level. It is the new patterns of networks of inter-relationships, and not the limited exchange contracts mediated by international law which emerge beyond the state - both within regional economies and without (at global level) - that should stimulate the search for a corresponding form of public governance beyond the sovereign state and its monopoly of imposing binding-decisions on every citizen. It should be possible to find new, more open forms of public governance, which cannot be reduced to a kind of secondary modelling of the nation state at global level. This experimental approach is a first justification for the use of the concept of 'governance', instead of 'government' which is closely associated with the sovereign state even if it includes certain non-state forms of exercising political power. However, the concept of 'government' focuses on binding decision-making, at least as the outcome of a political process. The concept of 'governance', which might be criticized for its vagueness, also comprises, and not by chance, private forms of management ('corporate governance').

The concept takes up the new forms of permeability of the state, which establish themselves beyond the more structured relationships between state and society in the 'corporate state' which has stable relationships with large/major 'representative' organizations. The new paradigm of 'openness' of governmental decision-making procedures towards societal influences is much less structured than it used to be in the past. The search for new forms of governance has to focus on both internal and

18 Cf. Keohane and Nye, supra n. 5; Stephan Hobe, Der kooperative offene Verfassungsstaat, 34 DER STAAT 1998, p.521; Udo Di Fabio, Das Recht offener Staaten (Tübingen: Mohr, 1998); Peer Zumbansen, Die vergangene Zukunft des Völkerrechts, 34 KRITISCHE JUSTIZ 2001, p.46; id., Spiegelungen von 'Staat und Gesellschaft'-Governace-Erfahrungen in der Globalisierungsdebatte, in Michael Anderheiden, Stefan

transnational networks of relationships which emerge beyond both the individual and the group-based legal relationships which were characteristic for the welfare state. The contributions in this volume show that these new processes are not complete unstructured and chaotic, but that new patterns of co-ordination which may be modelled with a view to the creation of a more adaptive and productive model of public governance can be observed. Such an approach would not just regard transnational processes of networks as a threat to government and democracy, but, on the contrary, as an incentive for the development of responsive forms of heterarchical decentred forms of governance which might develop their own reflexive potential vis-à-vis the evolution of a 'society of networks'.

If one takes into consideration the possibility of a generation of self-stabilizing patterns of network formation, the state could step in by introducing new flexible public reflexive forms of procedures which might be regarded as a functional equivalent to traditional forms of formulation of the public interest and its implementation. As soon as one tries to take this view, one becomes aware of the fact that globalization does not abolish the state, but transforms it by making it more permeable for the observation and registration of the discontinuous effects emerging in a world economy which can no longer be 'steered' by supposedly stable and continuous international treaties which allow for stable exchange between otherwise separate economies. In the same vein, just as the state has to open towards new patterns of 'networking' within regional societies, it has also to observe the evolution of patterns of relationships at global level. Both aspects correspond with one another: borders are no longer defined by political geography. They become less stable and less visible as the central instrument of state government, unilateral decision based on territorial sovereignty, loses its importance. Political powers overlap in the same way as societal networks of inter-relationships do. 19 This evolution can neither be described as the abolition of all forms of public power, nor as a non-political reign of technocracy which finds its institutionalization in the WTO, IMF, World Bank, etc., which have become emancipated from state-based public control.20

- Huster and Stephan Kirste (eds.), Globalisierung als Problem von Gerechtigkeit und Steuerungsfähigkeit des Rechts (Stuttgart: Steiner, 2001), p.13; Michael J. Sandel, Democracy and its Discontents (Cambridge: Harvard University Press, 1996), p.338s; Michael Reisman, Designing and Managing the Future of the State, 8 EJIL 1998, p.409-420; John Hoffman, Beyond the State (Cambridge, Mass.: Polity, 1995), p.212.
- 19 Cf. Reinicke, supra n. 1; for the fading boundaries between international law (as a body of law concerning external legal relations of the state) and constitutional (as a law concerning the internal structure of the state) cf. Anne Peters, Elemente einer Theorie der Verfassung Europas (Berlin: Duncker & Humblot, 2001); Robert Uerpmann, Internationales Verfassungsrecht, Juristenzeitung 2001, 565-573.
- 20 Cf. Joseph H.H.Weiler (ed.), The EU, the WTO and the NAFTA, Academy of European Law (Oxford: Oxford University Press, 2000); Gunther Teubner, Das Recht der globalen