

**SOVEREIGNTY REGIMES: SOVEREIGNTY AND TERRITORY
OVER TIME AND SPACE**

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The sovereignty of states has long been viewed as both a source of inter- and intra-state conflict and a response to it. Among political theorists, most attention has been given to the relationship between sovereignty and political authority: in particular, that state sovereignty has arisen to enforce internal order and to protect against external threat. Recently, the grounding of this claim in relation to assumptions of international anarchy and equality between states has been subject to critical scrutiny (e.g. Badie 1999; Krasner 1999; 2001; Lake 2003). But the connection between state sovereignty and state territoriality has enjoyed less systematic analysis (Biersteker 2002). Implicit in many claims about sovereignty as the quintessential form taken by political authority are associated claims about distinguishing a strictly bounded territory from an external world and thus fixing the territorial scope of state sovereignty (Agnew 1994).

Territoriality, the use of territory for political, social, and economic ends, is widely seen as a largely successful strategy for establishing the exclusive jurisdiction implied by state sovereignty. But *effective* state sovereignty is not necessarily so neatly territorialized. The US federal courts, for example, refuse to recognize a denial of rights to so-called enemy combatants from Afghanistan held at the US base in Guantanamo Bay, Cuba, on the claim that the base is not within their jurisdiction. Of course, the prisoners are held there because it is under US control, and therefore under effective US sovereignty. Effective sovereignty may not be recognized by the courts, but politically it is exactly what makes it possible for US authorities to sequester prisoners without charging them with any specific crimes. More generally, the impact of globalization (as it is commonly understood) on states is felt not only in the challenge it poses to their overall or issue-specific authority but also in its consequences for the territorialization of political power (e.g. Agnew 1999). In other words, *political authority is not necessarily predicated on and defined by strict and fixed territorial boundaries*. This suggests the need to change the terms of debate about state sovereignty. The purpose of this paper is to do so by integrating both sides of the challenge to state sovereignty (conjoined political authority and territory) from globalization by: (a) examining the historical and geographical incidence of different “regimes of sovereignty” (capacities of states in different global roles to exercise

sovereignty internally and in relation to their external relations) and (b) showing through the example of the “geography of money,” or use of currencies, how these regimes have come to operate.

The paper begins with a review of contemporary studies of sovereignty, noting the emphasis given to sovereignty as a means of establishing political authority and the lack of sustained attention as to why this should always entail a territorial definition of power. A second section proposes an alternative model of sovereignty to dominant ones by identifying four “sovereignty regimes” that result from distinctive combinations of central state authority (legitimate ruling or despotic power), on the one hand, and state territoriality (the administration of infrastructural power), on the other. By “regime” I mean a system of rule, not some sort of international protocol or agreement. The third section examines in more detail the general trajectory of the combination of sovereignty regimes over time. A periodization of the historical incidence and geography of sovereignty regimes is used that draws from my own previous research on the historical geography of world politics from the early nineteenth century to the present. An empirical analysis of the arguments of the second and third sections using the contemporary geography of money constitutes the focus of the fourth section of the paper. Finally, a brief conclusion relates the story of sovereignty as described in this paper to the broader theme of globalization and conflict, suggesting that the Westphalian model of sovereignty, deficient as it has long been for understanding the realities of world politics, is even more inadequate today, not only for its ignoring of hierarchy but also because of its mistaken emphasis on the geographical expression of power (particularly under the ambiguous sign of “sovereignty”) as invariably and inevitably territorial.

Sovereignty at Bay?

State sovereignty is fundamentally about political authority. This is a relationship in which an agent of a state can make commands that are voluntarily complied with by those over whom the state claims authority. In the typical story, such internal or “domestic” sovereignty requires a source of authority (kingship, the nation, the-people-in-government, etc.) that operates effectively within the territory of the state. Explicitly, therefore, state sovereignty is seen as essentially territorial. At the same time, and in the same story, sovereignty has an external dimension. Any given state must be recognized as sovereign by other states in order to qualify as such. This implies a formal equality between states in which none can exercise command

over others. This “juridical” or legal sovereignty, therefore, provides the necessary geographical condition for the operation of domestic sovereignty: a rigid distinction between the hierarchy exercised by the state within its territory from the anarchy that prevails beyond it.

From this viewpoint, state sovereignty may be understood as the absolute territorial organization of political authority. Most accounts of sovereignty accept its either/or quality: a state either does or does not have sovereignty (see Lake 2003). They differ as to whether they see this as a foundational principle (originating in, for example, the 17th century) or as a social practice. They also vary in accepting that there are actors in international politics (such as militarily weaker states) that are not fully sovereign. Unsurprisingly, however, when states show evidence of increasing economic and political interdependence this is construed as either a choice that they have made rather than an exogenous challenge to them or sovereignty is seen as totally under threat or “at bay.” But what if the absolute political authority implicit in this story about state sovereignty and its presumed territorial basis is problematic to begin with?

From this brief overview of dominant strands of contemporary thinking about state sovereignty three aspects stand in need of particular scrutiny. The first two have received increasing attention. But the third has been largely neglected. The first is the assumption that sovereignty is acquired exogenously or in a “state of nature” rather than in an ongoing system of states. So-called constructivists have been especially concerned with this aspect of contemporary thinking (e.g. Wendt 1999). Key to their interpretation is the idea that sovereignty – both domestically and externally -- is socially constructed as states interact with, imitate, and conflict with one another. In this understanding, sovereignty is a social fact produced by the practice of states. So, rather than emerging from a Hobbesian “state-of-nature” – the war of all against all – sovereignty comes about as a result of the “purposes” of states in interaction and can involve a wide range of actual practices and policies that change over time. This is all good and well, but it fails to address two further assumptions that are critical to the dominant views of sovereignty.

One of these is that of an essential equality between states claiming sovereignty, notwithstanding the obvious reality of hierarchy in power between actors in world politics. The modern world is one of major inequalities in power between states in different world regions. Much of this is the result of imperialism in the past and the hegemony exercised by the United States and its allies in the present. Thus, although the assumption of equal sovereignty (both

domestic and juridical) may apply, at least to a degree, to the European states, their settler offspring, Japan, and a few others, states in the rest of the world have a serious sovereignty deficit. For them, sovereignty is as yet “unrealized” (Inayatullah and Blaney 1995). They simply do not have the power resources to seriously challenge restrictions placed upon them by more powerful states (and other actors). Nor can they expect ready recognition of their internal political authority when they have either inherited their claim to rule from colonial powers or depend for their continuance in power on external support. But the problem of lack of conformity to an absolute sovereignty is even more pervasive simply because hierarchical dominance in world politics is even more widespread in its effects than just in the relation between imperial (or hegemonic) powers and subordinate ones (Krasner 1999; Lake 2003). More generally, situations of “shared sovereignty” (such as one China, two systems in Hong Kong, the emergence of supranational systems such as the European Union, and the ceding of economic power into the hands of international institutions such as the IMF in the case of heavily indebted undeveloping countries) and other anomalous situations (such as that of the Palestinian National Authority, the government of Bosnia, and the British/Irish collaboration over Northern Ireland) suggest how widespread exceptions to the rule of absolute sovereignty exercised equally by all states can be. These deviations recently have been slotted into a typology of actual authority relationships with anarchy and hierarchy at opposite ends of a continuum, extending from anarchy and then alliances at one end through spheres of influence and protectorates to empires and complete hierarchy at the other end (Lake 2003).

This brings us to the last problematic assumption; one that has received limited attention. This is the assumption that sovereignty is invariably territorial or exercised over blocs of terrestrial space. Modern political theory tends to understand geography as fundamentally territorial: the world is divided up into contiguous spatial units with the territorial state as the basic building block from which other territorial units (such as alliances, spheres of influence, empires, etc.) derive or develop (Agnew 1994). This is the reason why much of the speculation about “the decline of the state” or “sovereignty at bay” is posed as the “end of geography.” Yet, the historical record suggests that there is no necessity for polities to be organized territorially. “If politics is about rule, the modern state is verily unique, for it claims sovereignty and territoriality. It is sovereign in that it claims final authority and recognizes no higher source of jurisdiction. It is territorial in that rule is defined as exclusive authority over a fixed territorial

space. The criterion for determining where claims to sovereign jurisdiction begin or end is thus a purely geographic one. Mutually recognized borders delimit spheres of jurisdiction” (Spruyt 1994, 34). Territoriality, the use of territory for political, social, and economic ends, is in fact a strategy that has developed more in some historical contexts than in others. Thus, the territorial state as it is known to contemporary political theory developed initially in early modern Europe with the retreat of non-territorial dynastic systems of rule and the transfer of sovereignty from the personhood of monarchs to discrete national populations. That state sovereignty did not occur overnight following the Peace of Westphalia in 1648 is now well established (e.g., Osiander 2001; Teschke 2003). Territorialization of political authority was further enhanced by the development of mercantilist economies and, later, by an industrial capitalism that emphasized capturing powerful contiguous positive externalities from exponential distance-decay declines in transportation costs and from the clustering of external economies (material mixes, social relations, labor pools, etc.) within national-state boundaries (Kratochwil 1986; Teschke 2002)

Absent such conditions, sovereignty – in the sense of the socially constructed practices of political authority -- may be exercised non-territorially or in scattered pockets connected by flows across space-spanning networks. From this viewpoint, sovereignty can be practiced in networks across space with distributed nodes in places that are either hierarchically arranged or reticular (without a central or directing node). In the former case authority is centralized whereas in the latter it is essentially shared across the network. All forms of polity – from hunter-gatherer tribes through nomadic kinship structures to city-states, territorial states, spheres of influence, alliances, trade pacts, seaborne empires, therefore, occupy some sort of space (Agnew and Corbridge 1995). What is clear, however, if not widely recognized within contemporary debates about state sovereignty, is that political authority is not necessarily predicated on and defined by strict and fixed territorial boundaries.

The terms “territory” and “space” need to be very carefully distinguished from one another (Durand et al 1992). Simply because the former might be superseded or supplemented in the organization of political authority does not mean that the latter disappears. Indeed, “states” of one type or another can continue to serve as the locus of political authority even as their power is deployed by networked flows rather than by territorial control penetrating other nominally sovereign states. For example, today relatively powerful states can supervise security

threats in distant places and financial transactions in “offshore” centers (even as they have little direct regulatory control) by rewarding and/or punishing actions that they judge in relation to the spatial efficacy of their authority (e.g. Palen 2002). Of course, in such situations sovereignty is not absolute. But, then, as is increasingly clear, and as criticism of the first two assumptions about conventional views of state sovereignty implies, state sovereignty rarely ever has been or is absolute, even when apparently neatly territorialized.

The main issue is that territoriality is only one type of spatiality or way in which space is constituted socially and mobilized politically (Durand et al. 1992; Agnew 1999). Territoriality always has two features: blocks of rigidly bordered space and domination or control as the modality of power upon which the bordering relies. This may well be legitimate power, i.e. exercised with authority (either bureaucratic or charismatic), but it ultimately rests on demarcation through domination. Yet both space and power have other possible modalities (Mann 1993; Allen 2003). *Authoritative* power, involving command and obedience, can also operate over long distances, for example through the deployment of military assets, but this has less possibility of sustained, or legitimate, impact on the people with whom it comes into contact. But this is a networked form of domination. It is based on control over flows through space-spanning networks, not control over blocks of space. On the contrary, *diffused* power refers to power that is not centered or directly commanded but that results from patterns of social association and interaction in groups and movements or through market exchange (e.g. bond rating agencies are one example, see Sinclair 2000). Diffused power can be territorialized, but only in so far as the networks it defines are territorially constrained by authoritative power. Otherwise, networks are limited spatially only by the purposes for which they are formed. In this way, power is generated through association and affiliation rather than through command or domination (Arendt 1958). When not sustained through collective action, however, the power networks thus created will disintegrate.

Sovereignty as the *legitimate* exercise of power, therefore, is necessarily ceded, seduced, and co-opted as well as coerced. And, this can be for all issue areas (trade, security, currency, etc.) or for only one and for parts of a territory or the whole. Without active collaboration on both sides of borders, state sovereignty can be neither sustained nor undermined. In short, “domination is not everywhere,” as Allen (2003, 159) remarks. Indeed, even demarcation through borders, the essence of state territoriality, relies to a considerable degree on the extent to

which networks of association and affiliation parallel the boundaries of domination. Even the seemingly most Westphalian of states, then, are riddled with power networks whose extension beyond territorial boundaries could render claims to absolute sovereignty increasingly moot but whose existence inside the boundaries is critical to its credibility.

The perpetual territorialization of power presumed by dominant discourses of state sovereignty, including those critical of the assumption of essential equality between states, might, therefore, make globalization appear a greater challenge to the sovereignty of some states than it may in fact be. State sovereignty never was as complete, even in cases where it might seem to have had a relatively good fit, as in Western Europe and North America, as it now often seems to have been. Thinking about sovereignty, therefore, takes on a somewhat different cast when considered in relation to territoriality as only one possible, if in recent world history undoubtedly the most important, spatiality of political power.

Sovereignty Regimes

Political authority is the legitimate practice of power. Today, it requires both resources and a high degree of popular acceptance to operate effectively. More specifically, sovereignty requires a governmental apparatus to serve as a final authority and an accepted definition of functional and geographical scope (territorial and non-territorial) beyond which its commands go unheeded and unenforced. The ways in which sovereignty works, however, are far from fixed either historically or geographically (Biersteker 2002). What has been lacking in discussing the range of practices associated with sovereignty has been a means of identifying the effects of co-variation in the effectiveness of state authority, on the one hand, and its relative territoriality, on the other. A useful approach to doing so comes from writing on the historical sociology of power. Specifically, the terms *despotic* and *infrastructural* power have been used by Mann (1984) to identify the two different ways in which a governmental apparatus acquires and uses authoritative power. In other words, these terms identify, respectively, the two different functions that states perform and that underpin their claims to sovereignty: the struggle for power among elites and interest groups in one state in relation to elites and interest groups elsewhere and the provision of public goods that are usually provided publicly (by states). In Mann's (1984, 188) words:

Let us clearly distinguish these two types of state power. The first sense [despotic power]

denotes power by the state elite itself over civil society. The second [infrastructural power] denotes the power of the state to penetrate and centrally co-ordinate the activities of civil society through its own infrastructure.

Historically, infrastructural power has risen in importance since the 18th century. This is because elites have been forced through political struggles to become more responsive to their populations and, as a result, rising pressure groups have demanded more infrastructural goods. In turn, this led to a territorialization of sovereignty. Until recently, the technologies for providing public goods have had a built-in territorial bias, not least relating to the capture of positive externalities. Increasingly, however, infrastructural power can be deployed across networks that, though located in discrete places, are not necessarily territorial in the externality fields that they produce. Thus, currencies, systems of measure, trading networks, educational provision, and welfare services need not be associated with exclusive membership in a conventional nation-state. New deployments of infrastructural power both deterritorialize existing states and reterritorialize membership around cities and hinterlands, regions, and continental-level political entities such as the European Union (Scott 1998). International organizations, both private and state-run, likewise have developed the capacity to deliver a wide range of public goods associated with infrastructural power. There is a simultaneous scaling-up and scaling-down of the relevant geographical fields of infrastructural power depending on the political economies of scale of different regulatory, productive, and redistributive public goods. Consequently, "... the more economies of scale of dominant goods and assets diverge from the structural scale of the national state – and the more those divergences feed back into each other in complex ways – then the more the authority, legitimacy, policymaking capacity, and policy-implementing effectiveness of the [territorial] state will be eroded and undermined both within and without" (Cerny 1995, 621).

At the same time, despotic power (in Mann's sense) need not always involve a singular focus on fixed state territories if elites and pressure groups adjust their identities and interests to other territorial levels (such as city-regions, localities, and empires) or shift loyalties to non-territorial entities such as international organizations, corporations, social movements, or religious groupings (e.g. Gill 1994; Cutler et al. 1999). This could involve either an enhancing of territorial hierarchy in pursuit of, for example, an imperium, or the attenuation of territorial sovereignty in the form of the diffusion of authority across a multi-nodal financial network

involving banks, other states, and debt-rating agencies. There is no necessary association, therefore, between despotic power and central state authority. Both despotic-governmental and diffuse social power can work together to challenge central state authority. Consequently, an up-scaling or a fragmentation of sovereignty can result as elites and social groups pursue their goals in ways that potentially territorially expand or undercut the authority of the central governmental apparatus, respectively.

By way of example, US oil interests possess friends in high places in the US government who might like to see US military forces take direct administrative control over the world's major oil-exporting states. This would be to deploy US despotic power towards empire. In a very different direction, in Britain in the 1980s, financial elites pushed the government for regulations that would enhance the performance of London as an international banking center. Though such regulations (for instance, relaxing capital controls and deregulating commodity markets) benefited London's financial sector, they had generally negative macroeconomic effects on the state territory as a whole. In the long-term they may also have had the unintended negative effect on the ability of the government to move in contrary directions because they generated powerful interests whose loyalties now link them to other financial centers rather than to their nominal home state. British government anxiety about joining the European Monetary System has been exacerbated by the despotic power now exercised most effectively within British politics by London's financial center even though such a move might be helpful to manufacturing and agricultural interests elsewhere in Britain. This is related to the "who is 'us?'" question raised about nominally US-owned businesses in the early 1990s that pay low or no taxes in the United States, invest heavily in jobs in other countries, and yet depend on American consumers for final demand for what they produce.

But the recasting of the territorial basis to sovereignty and the challenge to central state authority through de-territorialization at the state level and re-territorialization at local and supra-national scales of infrastructural and despotic power are uneven around the world (Albert et al. 2001). And, as noted previously, such trends are not invariably equivalent to the erosion of state sovereignty tout court. What is needed, therefore, is a typology of the main ways in which sovereignty is currently exercised to take account of (1) its social construction; (2) its association with hierarchical subordination; and (3) its redeployment in territorial and non-territorial forms. The two basic dimensions to the typology are defined by the relative strength of central state

authority (state despotic power) on one axis and its relative consolidation in state territoriality (state infrastructural power) on the other. Regarded as social constructions, these define both the extent of state autonomy and the degree to which it is territorial in practice. Intersecting continua rather than discrete categories, four extreme cases can be identified nevertheless as ideal types for purposes of theoretical discussion and empirical analysis. I refer to these four ideal types as sovereignty regimes, recognizing that any actual real-world case might not exactly conform to a particular regime. The examples given in parentheses are contemporary ones that come relatively close to the specific intersection of the two dimensions (Table 1).

Of the four exemplary cases, the *classic* example is the one closest to the story frequently told about state sovereignty, although even here there can be complications (for example, on Hong Kong and Taiwan for China). One irony in the choice of example is that it is not a European state that serves to illustrate the classic case! Of course, the so-called Westphalian common sense might have it otherwise, suggesting how outdated that conception of state sovereignty truly is. In the Chinese example I use here the sense is one of despotic and infrastructural power still largely deployed within a bounded state territory (even if increasingly dependent on foreign direct investment and overseas markets for its exports) and a high degree of effective central state political authority. The second case resembles most a story that emphasizes hierarchy in world politics but with networked reach over space rather than direct territorial control. This *imperialist* regime is in all respects the exact opposite of the classic case. Not only is central state authority seriously in question because of external dependence and manipulation as well as corruption and chronic mismanagement; state territoriality is also subject to separatist threats, local insurgencies, and poor infrastructural integration. Infrastructural power is weak and despotic power is often effectively in outside hands. It is an imperialist regime, if also reliant on the assent and cooperation of local elites, because the practice of sovereignty is tied ineluctably to the dependent political-economic status that many states endure in the regions where it prevails (Grovogui 2002).

Table 1: Sovereignty Regimes

		STATE TERRITORIALITY	
		Consolidated	Open
Stronger	Classic		Globalist

	(China)	(United States)
CENTRAL STATE AUTHORITY		
Weaker	Integrative (European Union)	Imperialist (Latin America, Sub-Saharan Africa)

The other two cases are less familiar in relation to both conventional and critical perspectives on state sovereignty. The third regime is the *integrative*, represented here by the European Union. In this case sovereignty has complexities relating to the co-existence between different levels or tiers of government and the distinctive functional areas that are represented differentially across the different levels, from EU-wide to the national-state and sub-national regional. But the territorial character of some of its infrastructural power is difficult to deny (consider the Common Agricultural Policy, for example), even if central state authority for both the entire EU and the member states is weaker than when each of the states was an independent entity. Quite clearly, many of the founding states of the Westphalian system have thrown in their lot with one another to create a larger and, as yet, politically unclassifiable entity that challenges existing state sovereignty in functionally complex and oftentimes non-territorial ways.

Finally, the fourth regime is the *globalist*. Perhaps the best current example of this is the United States. Certainly, Britain in the 19th century also followed a version of this regime. But in both cases attempts have been made to recruit other states, by co-optation and assent as much as by coercion, into the regime. Indeed, globalization can be seen as the process (along with necessary technological and economic changes) of enrolling states in the globalist sovereignty regime. From this viewpoint, the globalist state relies on hegemony, in the sense of a mix of coercion and active consent, to bring others into line with its objectives. Although US central state authority is relatively strong (notwithstanding the problems of its republican constitutionalism in coping with its global role), its centrality to world politics catches it between two conflicting territorial impulses: one that presses towards a scattered imperium (as in Iraq) and one that pushes towards keeping the US as an open economy. The basis of its hegemony is welcoming of immigrants and foreign investment and goods and encouraging of these tendencies

elsewhere, but at the same time being increasingly subject to fiscal over-extension as it endeavors to intervene globally yet also serve the demands of its population for pensions and healthcare benefits. Other states that enter into the globalist regime are not likely to experience this tension because they can restrict their military expenditures and thus can benefit from it as long as they can retain a relatively high degree of central state authority. In other words, open borders can be beneficial as long as states retain the capacity to close them down. Otherwise the danger is always that the globalist regime becomes imperialist for states other than the dominant one.

Historical Geography of Sovereignty Regimes

None of the sovereignty regimes is totally new, although the precise form that each takes varies over time and from place to place. They are ideal-types or models that cannot map exactly onto real-world cases. Given this caveat, however, a strong case can be made for a historical pattern in their appearance (Agnew and Corbridge 1995). Perhaps four periods can be identified from the early 19th century to the present in which different combinations of the sovereignty regimes have prevailed with distinctive geographies to them. Not surprisingly, these periods coincide with general trends in world history that result from a complex mix of economic, geopolitical, and technological change. Needless to say, the periods are heuristic rather than definitive for the purpose of exploring the relative incidence of sovereignty regimes. Any periodization is inherently contestable. The present purpose is merely to historicize and contextualize the sovereignty regimes, not to provide a total account of world history over the past two hundred years.

The classic regime is, of course, the so-called Westphalian version of state sovereignty, although it really only emerged as a practical form in the 19th century (Croxtton 1999; Murphy 1996). If the Concert of Europe is its main historical legacy, it co-existed from the outset outside of Europe with imperialist regimes (such as the British in India, the French in Africa, and the Dutch in the East Indies) and with a weak British globalist regime that through a commitment to free trade and a gold-sterling standard deployed infrastructural power well beyond Britain's boundaries. This geopolitical order was undermined in the late 19th century by the emergence of a set of rival imperialist projects as Germany, the United States, and Japan in different ways challenged Britain's globalist regime.

The net effect over 1875-1945 was to encourage the consolidation of classic and imperialist regimes at the expense of the globalist one. Borders hardened even as they were threatened by the expansionism of those powerful states that saw themselves as closed out of or disadvantaged by of the previous imperialist and globalist regimes. The Great Depression of the 1930s reinforced protectionist pressures to seal off territorial economies from foreign economic competitors. Plausibly, this simply deepened the economic misery. But it also encouraged nationalist sentiments. This period reached a crescendo with the Second World War.

The outcome of that war ushered in a period in which an overarching Cold War led to two competing imperialist regimes of which one (the US) had incipient globalist elements. The countries of Western Europe and Japan, however, retained a relatively high degree of central state authority and the rapid expansion of welfare states across states in these regions created something akin to the classic regime. The Bretton Woods monetary system based on a fixed exchange-rate between the US\$ (backed by gold) and the main currencies of Western Europe and Japan tended until its disintegration in the late 1960s and early 1970s to reinforce the territorial basis to sovereignty in those states whose currencies were convertible within it. As former colonial countries achieved independence from the late 1940s down into the 1970s they aspired to classic sovereignty. Unfortunately, the terms of trade for their main products and the weakness of their central state authority worked against this, reproducing in many cases the imperialist regime. Only where states could steer a course between their past dependence and the globalist regime incipient in US sovereignty (as in East Asia) was this path avoided.

When the United States government acted in the early 1970s to protect its domestic economy from a series of external shocks initiated in the 1960s (by abrogating the Bretton Woods Agreement of a dollar-gold standard) it inadvertently furthered the opening up of the US and other economies to relatively unregulated flows of capital, goods, and services. Along with the actions of a range of new policies from existing US-dominated international institutions, such as the IMF and the GATT (after 1994, the WTO), this stimulated the worldwide spread of a new “market access” model of global trade and investment. Together with the end of the Cold War, as the Soviet Union and its allies essentially abandoned their imperialist regime because of its failure to deliver economic growth and political participation, this liberated the US for unrestricted pursuit of a globalist sovereignty regime. In many parts of the world, however, the perception is that this is simply a new version of the imperialist regime. In Europe the deepening

of the European Union since the late 1980s represents the major example of the construction of an integrative regime. There are, however, a number of possible candidates for such a sovereignty regime should the US-sponsored globalist regime falter (e.g. Free Trade Area of the Americas, ASEAN, etc.) States such as China, Japan, India, and possibly Russia, all large countries, remain as the best surviving examples of the operation of the classic sovereignty regime.

Previous periods faded away. There seems no good reason to think that the present one has unlimited staying power. So, what might bring it to an end? The major conflict potential today lies between the globalist regime, on the one hand, and those trapped in the imperialist regime, on the other. Even though asymmetric in orthodox security terms, this tension lies at the heart of much contemporary global conflict in, for example, the Middle East and Latin America. Classic and globalist regimes, however are also basically antithetical. The current US-China conflict over trade and exchange-rate valuation is an example of this tension. If the integrative regime in Europe gives rise to a globalist regime incompatible with the current one then this too could produce a major conflict of interests.

Currency and Sovereignty Regimes

In the context of state sovereignty, currencies are interesting for three reasons. In the first place, they are a key material and symbolic feature of central state authority (Cohen 1998; Simmons 2000). National currencies rose to prominence in the mid-19th century as state authority in Western Europe and North America was firmly established. Second, “it is in the monetary realm,” according to Helleiner (1999, 309), “where challenges to the practice of territoriality are particularly apparent in the present age.” Thus, the various impacts of globalization on the territoriality of state sovereignty should be most immediately obvious in relation to the geographical dynamics of national-state currencies. Finally, decisions about whether to maintain a national currency, share a new one, substitute for a national one with a global one, and how to manage a global one provide a common metric for examining the descriptive merits of the typology of sovereignty regimes: the contemporary geography of money. Before turning to the particulars of the intersection between currencies and sovereignty regimes, I provide a brief overview of recent trends in the relation between states and money.

States and Money: Recent Trends

The geography of money provides a good empirical basis for examining the distinctive combinations of state authority and territorial control associated with the various sovereignty regimes identified above. A national currency is issued by central state authorities and is regarded as legitimate because of its connection to independent statehood. It is thus a symbol of national-state sovereignty as vested in central state authority. But it is also one of the prime examples of the infrastructural power associated with the “autonomy” of statehood. One of the most important services states perform for their territories is the provision of money. In practice, however, currency can also be an instrument of national power and a measure of global influence. Its use beyond national borders or its retreat in the face of the spread of a “stronger” currency from outside is a measure of both the effectiveness of the territorial component of state sovereignty and the move away from a territorial to a networked spatiality of sovereignty.

The control and maintenance of a territorially uniform and exclusive currency are often regarded as one of the main attributes of state sovereignty. If a state cannot issue and control its own currency then it is not much of a state. Cohen (1977, 3) offers a concise statement of this view:

the creation of money is widely acknowledged as one of the fundamental attributes of political sovereignty. Virtually every state issues its own currency; within national frontiers, no currency but the local currency is generally accepted to serve the three traditional functions of money - medium of exchange, unit of account, and store of value.

Currency has a further and vital symbolic role in underwriting statehood.

As Keynes understood, the creditworthiness of a nation’s money is perhaps the primary evidence to the faithful (the citizens) that the ultimate object of their faith, the nation - state, is real, powerful and legitimate; it is the ultimate ‘guarantor of value’ (Brantlinger 1996, 241)

Yet, over the past thirty years a number of trends have challenged the notion that every state must have its own territorial currency (currencies that are homogeneous and exclusive within the boundaries of a given state). This does not necessarily portend a crisis for the state system as such so much as a challenge to that legitimacy of states which rests on claims to represent particular nations and associated national interests by means of control over singular currencies. Territorial currencies developed on a large scale only in the nineteenth century, once

the Westphalian system of states was already in place (Helleiner 1999; 2003a). Symbolically, however, currencies (including the symbols found on coinage and bank notes) were important elements in establishing central state legitimacy long before the nineteenth century. Modern statehood was not achieved independently of processes of nation-building, even though “state” and “nation” can be distinguished analytically, the former referring to a set of institutions ruling over a discrete territory and the latter signifying a group of people who share a sense of common destiny and occupy a common space. The fact that the construction of territorial currencies was largely a nineteenth-century phenomenon, therefore, should not detract from the persisting linkage over many centuries between currency and statehood, however ineffective in practice that linkage often was.

In the nineteenth century, however, other economic advantages to territorial currencies became increasingly apparent. One of these was seigniorage or the capacity that producing currency gave to governments to increase their expenditures. Literally this refers to the difference in value between the circulating value of a currency unit and what it costs to produce. It is more technically defined as the excess of the nominal value of a currency over its production cost. This gives a state a source of revenue beyond what can be raised by taxes or borrowing in financial markets. Other benefits include the capacity to engage in macroeconomic management through such monetary policies as money supply and exchange-rate manipulation, monetary insulation to prevent dominance by the issuers of other currencies, and creating a truly territorial economy by unifying currency units, reducing monetary transaction costs, and defining the territorial borders of the state through the necessity of exchanging currencies on crossing a border (Cohen 1998; Helleiner 1999; 2003a)

Territorial currencies, therefore, have a number of powerful underpinnings. Increasingly, however, these have come under pressure from countervailing market and social forces. The shift from a fixed to a floating exchange-rate by the United States and other major industrialized countries in the mid-1970s and the liberalization of financial markets all over the world in subsequent years have challenged the “one country, one currency” model, even though it was hardly universal in times past. The singular hold of national currencies within their territories is increasingly problematic as some expand globally or regionally and as others retreat and collapse. Processes of hierarchical diffusion within global transactional networks anchored in the world’s financial centers combine with hierarchical and reticular contagious diffusion across

state territories by official government sponsorship or by unofficial social adoption to spread the use of transnational currencies far and wide. Cohen (1998, 23) sees the *authoritative* domain of different currencies (i.e. their relative use and acceptance in performing the three main economic functions of currency) as expanding and contracting unevenly as transactional flows cross borders and territorial currencies adjust to the challenges they must face from cross-border flows. Thus, the character of monetary sovereignty in a specific place – how strong or how attenuated it is -- provides one measure of the effective sovereignty enjoyed by the state in which that place is located.

Three monetary developments in particular have begun to delink currencies from states in the way they were once largely mutually defining. The first is the growing use of foreign currencies for a range of transactions within national currency territories. The best known of these is the growth of the so-called Eurodollar markets in London and other European financial centers. Other developments would include the development of off-shore financial centers such as the Bahamas and the Cayman Islands largely devoted to exchanging, sheltering and laundering foreign currencies. This trend is one part of that set of processes leading to global financial integration, at least among the world's richest economies or, more specifically, between sites in them in which such processes are located (e.g. so-called world cities and off-shore centers).

The second is the emergence of projects such as that in the European Union to restrict or abolish national currencies in favor of supranational or world-regional currencies. In practice, the US dollar, the Euro, and the Japanese yen now serve as transnational currencies. Much of world trade is denominated in one or other of these currencies, irrespective of its particular origins or destinations. Currencies such as the US dollar and the French franc have also come to dominate large regions beyond their borders, the dollar in Latin America and the French franc in parts of West Africa that formerly were part of the French Empire. Some of this is the result of internationally mandated economic reform, while some is more the result of local élites keeping their funds in harder (more stable and reliable) currencies. Between 1986 and 1996, currency substitution, the holding of foreign currencies such as the US\$, the German Mark, and the Swiss Franc beyond their home territories, increased threefold (Doyle 2000). The arrival of the Euro in 2002, eliminating at least some of the existing European territorial currencies, suggests that the process of deterritorialization of currencies will intensify in years to come.

Third, and finally, a number of uses have appeared in recent years for “local currencies,” forms of scrip and token money, that substitute for regular national currency. Such uses are often the result of experiments in local communities (e.g. Ithaca, NY, and Montpelier, VT, in the United States) and consumer cooperatives or tokens issued by firms for their products or services. As yet, they cannot really be seen as posing a major threat to territorial currencies. But they are often symptomatic of the lack of trust that territorial currencies now elicit in some quarters, perhaps as a result of the uses of monetary policies which have disadvantaged some groups (and localities) when currencies are rapidly revalued or high inflation persists which pushes people out of the official monetary economy and into a black or underground economy where barter, trusted foreign currencies (such as the German mark was in many parts of Eastern Europe before and just after the end of the Cold War) or local currencies prevail.

The recent trend towards deterritorialization of currencies, therefore, has three aspects to it: the explosion of foreign currency transactions within the territories of hitherto territorial currencies; the rapid increase in the number of economic transactions involving supranational or transnational currencies such as the US\$; and the growing use of local currencies. None of these should be read as totally undermining existing territorial currencies. The continued erosion of territorial currencies will take place only if the most powerful states continue to allow it. That there is still advantage in it for the most “powerful” currencies means that it will probably continue. As it deepens, however, it could well gain a momentum that even the most powerful of states will find difficult to counteract. What is clear is that currencies seem much less territorialized than they were during the Cold War years. This is one of the prime manifestations of contemporary globalization.

Currencies and Sovereignty Regimes

To be more specific about the connections between globalization and monetary sovereignty requires identifying the processes whereby currencies take on distinctive relationships with particular states and mapping these on to the sovereignty regimes identified previously.

Remarkably, there are four ways in which currencies currently tend to work with respect to any given national territory, neatly paralleling the four sovereignty regimes. This in itself suggests that, at least for the geography of money, there is something useful theoretically about the fourfold schema of sovereignty regimes. The four currency processes are as follows:

- (1) territorial, in which a national-state currency dominates a state territory and has restricted access to currencies of wider circulation except through a managed float or other mechanism controlled by central state authority;
- (2) transnational, in which the currency issued by one state (invariably a powerful one) circulates widely, floats freely, is a standard (or reserve) currency in relation to which other currencies are denominated, and is a preferred currency for transacting global commerce;
- (3) shared, in which a formal monetary alliance operates either through full monetary union (as with the Euro and the EU) or through an exchange-rate union among economic equals;
- (4) substitute, in which a transnational currency substitutes either officially or unofficially in all or many transactions for the nominal territorial currency of a given state.

These map onto the four sovereignty regimes with the four cases taken from Table 1 (see Table 2). In the contemporary world there are relatively few examples of territorial currencies

Table 2: Currency Processes and Sovereignty Regimes

		SOVEREIGNTY REGIME			
		Classic	Globalist	Integrative	Imperialist
DOMINANT CURRENCY PROCESS	Territorial	China			
	Transnational		US		
	Shared			EU	
	Substitute				Latin America

that reflect classic state sovereignty. One of the best examples is China, whose currency, the renminbi (or yuan), is pegged against the US\$ in a managed float and whose economy is thereby insulated to a certain degree from monetary shocks emanating from the wider world economy. The only contemporary example of an intersection between an transnational currency process and a globalist sovereignty regime is the United States. The US\$ is the main metric of transnational trade and commerce and the main currency that other states (such as China) hold as a reserve. As a result, the US\$ is also the currency that is the main instrument of globalization.

The best current example of a shared currency is the Euro, associated as it is with the project of pan-European unification.

Finally, to the extent that certain territorial currencies reflect the weakness of their national economies they are substituted for by the use of transnational currencies. Currently, the US\$ is the most important of these, either through informal or formal dollarization, and, more infrequently, through so-called currency boards or some variant thereof. In both cases territorial monetary sovereignty is essentially sacrificed to dampen inflation, increase foreign investment, and reduce the proclivity for growth in government spending. Many Latin American countries have recently experienced this intersection between currency substitution and what I call the imperialist sovereignty regime. Each of these currency processes is discussed with reference to the specific example.

China

If the industrialization of Asia was the “most spectacular economic happening of the second half of the twentieth century” (Daly 1994, 165), then it has been China’s rapid emergence since 1978 as a major global economic actor that is perhaps its most remarkable feature. Closed off to the capitalist world economy from 1949 until the late 1970s, China has quickly become a major presence in both the world’s trading and financial economies. In particular, China has become an incredible exporting machine based on massive foreign as well as domestic investment. China’s exports grew eightfold – to more than \$380 billion -- between 1990 and 2003. Between 2000 and 2003 this represented an increase of from 3.9 to 6 per cent of the world total. Allied to domestic investment, this export explosion has generated a huge demand for raw materials as local firms and foreign investors have vastly increased production capacity in such sectors as steel and cement. As of 2002, China consumed more steel (25.8 per cent of the world total) than the EU (16.8 per cent), or NAFTA (16.0 per cent). In 2002 China accounted for 16 per cent of the growth in the world economy, second only to the United States (McGregor 2003; Hale and Hale 2003, 37-8).

Since 1978, but especially since 1987, the Chinese economy has gone from a command-and-control model to a state-managed but market-driven one. Undoubtedly, however, China has entered into the world economy largely on its own terms. Much of its growth has been driven by foreign direct investment (FDI) which accounts for over 40 percent of GDP (compared to a minuscule 1.1 per cent in Japan). But the central government has retained much more control

over its national economy than is characteristic of most contemporary states. One of the main mechanisms for continuing central control has been the managed float of the Chinese renminbi (AKA the yuan) against the US\$. This has served to both keep Chinese goods competitive in the US market as those of other countries have become less so because of the appreciation of their currencies against the US\$ since 2001 and to build up massive US\$ reserves which the Chinese government has been investing in, *inter alia*, US Treasury bonds and thus helping to finance both the US federal budget and current account deficits. Indeed, as the US trade deficit with China expanded monotonically between 1996 and 2003, the Chinese purchase of US Treasury securities climbed at a much faster rate, especially after 2000 (Economist 10/25/2003). China, then, uses the monopoly of the renminbi within the country to keep out external currency shocks and to cultivate itself as a destination for massive foreign direct investment premised on low labor costs and a stable exchange-rate against the US\$. Two major questions arise: how does this work and is it sustainable in a world where monetary sovereignty seems under considerable pressure?

The Chinese managed float system began in 1994. Prior to that date the renminbi was severely overvalued at about 1.7 to the US\$ to segregate the planned Chinese economy from the rest of the world. The official exchange rate was pegged in 1994 at 8.4 to the US\$ but only in December 1996 did the Chinese government accept the IMF Article 8 and set about making the renminbi convertible for current account transactions. Since 1996 the rate against the US\$ has been virtually fixed at Rmb 8.28. This encouraged both exports and FDI inflows denominated in US dollars. Much of China's growth since the mid-1990s owes much to this exchange-rate system. It allows China to profit externally while maintaining internal currency homogeneity and stability. The renminbi is a territorial currency whose value is more or less fixed against the currency of its main export market and the main currency of world trade.

By way of example for this critical monetary insulation, during the Asian financial crisis of 1997-8 the Chinese economy remained largely unaffected because the renminbi is not convertible on capital accounts so investors could not suddenly withdraw their funds as they could elsewhere. Though there was some pressure from international business to devalue the renminbi the Chinese government resisted this. Wang (2003) claims that this was mainly a question of maintaining the government's image of control and autonomy. But he also points to the role of commitment to low inflation and the lack of influence on government policy of local

and foreign-owned enterprises in China that lobbied unsuccessfully for a devaluation. So, even in the face of increased dependence on FDI the Chinese government was more concerned about other largely political goals than pleasing its foreign investors.

Whether this currency system is sustainable is an open question. One danger comes from overheating of the manufacturing sector. As fixed asset investment grew by 31.1 per cent in China for all sectors in the first half of 2003, three times the rate for the whole of 2000, consumption grew only at 8.8 per cent (Hale and Hale 2003, 39). This disparity indicates a high degree of excess capacity. The fixed exchange rate encourages the growth of foreign exchange reserves which then push up the money supply (up from 12 per cent in 2001 to 20 per cent in 2003). In turn, this encourages more fixed asset investment by speculative capital thus exacerbating the problem of shrinking profit margins as more investment chases stagnant or shrinking demand. At this point the Chinese monetary authorities would have to strengthen capital controls and intervene in foreign exchange markets to suppress the appreciation of the renminbi (Kuroda 2003).

A second threat comes from the efforts of foreign political leaders, such as the US Secretary of the Treasury, to persuade the Chinese government to move to a freely floating renminbi in order to avoid the imposition of trade and financial sanctions. Disturbed by China's ability to exploit the US\$ by "hiding" behind a managed float, those who would change the Chinese monetary system, however, should note how much US businesses investing in China lower labor costs and reap higher profits and US customers/workers receive lower prices and low-paying jobs (both in the same building at Wal-Mart) from the current system. China has also increased its imports (largely raw materials) at a higher rate than its exports over the period 1998-2003. But the pressure is likely to continue. A territorial currency and a globalizing world economy are not easily harmonized, one with the other, particularly for a country such as China with an increasingly heavy presence in world trade. As of summer 2003, the renminbi is approximately 40% undervalued against the US\$ (Swann 2003). This hands businesses operating in China an enormous competitive advantage over businesses in the United States, resulting in a major loss of American jobs in relevant sectors. Many of the 2.8 million manufacturing jobs lost in the US between the beginning of the George W. Bush presidency and summer 2003 disappeared because of competition from China: an amazing one out of every seven jobs in US manufacturing. No US President has ever presided over such a hemorrhaging

of jobs over such a short period of time (Beddoes 2003). That this occurs at a time when even many service sector jobs are also becoming vulnerable to relocation overseas from the US and Europe to countries such as India and China (e.g. software programming and call centers) only makes the political tension that much greater (*Economist* 10/25/2003). Only a radical restructuring of the Chinese monetary system through relaxing capital controls and allowing the US\$ and other currencies to freely circulate within China is likely to assuage the critics. Whether this is possible for a government seemingly still intent for political reasons on maintaining a classic sovereignty regime – keeping the political monopoly exercised by the Communist Party and re-establishing the prestige lost when China was subject to the depredations of colonial powers in the 19th and early 20th centuries -- remains to be seen.

The United States

As one of the victorious powers after the Second World War, the US was the main agent of imposing a fixed exchange-rate system on the international economy of the time. This system, known by the name of the place in New Hampshire where it was negotiated (mainly between the US government and British government representatives in 1944) – the Bretton Woods Agreement – pegged exchange rates against a dollar-gold standard for the period from 1945 until 1971. Although full convertibility of European currencies against the US\$ did not occur until 31 December 1958, political acceptance of the system in the US and elsewhere rested more on its stimulus to open, multilateral trade than on its particular properties as a strategy for organizing international monetary relations (Eichengreen 1996, 99). Although the system can be seen as part of the “embedded liberalism” that the US extended to its sphere of influence during the Cold War (Ruggie 1982), it was a deeply territorialized way of managing currencies. It rested initially and finally on the capacity of governments (and central banks) to regulate their currencies against an external standard provided by the US\$ pegged against a fixed price of gold.

By the 1960s the system was in deep trouble. The problem was the increasing leakage of dollars beyond American shores through the accumulation of dollar reserves by foreign central banks and the emergence of the so-called Eurodollar market. On the one hand, the economic recovery of Europe and Japan meant that they accumulated large dollar reserves but “this was attractive only as long as there was no question about their convertibility into gold. But once foreign dollar balances loomed large relative to U.S. gold reserves, the credibility of this commitment might be cast into doubt” (Eichengreen 1996, 116). As early as 1947 the economist

Robert Triffin had predicted that this would be a problem. By 1960 US foreign dollar liabilities exceeded US gold reserves. If foreign countries wanted to convert their reserves there would a rush to cash in dollars before the US authorities could devalue. This threat became a major refrain of international monetary debate in the 1960s.

On the other hand, the dollar increasingly became a transnational rather than a territorial currency in the sense it had to be for the Bretton Woods system to function properly. Beginning in 1958 a Eurodollar market had sprung up in London to service dollars beyond the regulatory domain of both the US and Britain. As a result, dollars flowed into this market where they were then lent out without reference to capital controls. Banking Regulation Q, that capped interest rates in the US, encouraged investment in the Eurodollar market from the United States. Multinational businesses parked dollar funds in Eurodollar accounts to avoid US taxes and to gain interest-rate differentials relative to US-located banks. Attempts by US governments to correct the imbalances by manipulating the US capital account did slow down the development of the offshore dollar market. But the Eurodollar market “enabled private financiers to engage in exactly the type of hot-money transactions that the Bretton Woods regime had sought to eliminate. As predicted by Triffin’s dilemma, the opportunity for arbitrage profits against the dollar and the other major currencies was overwhelming. Speculation consequently worsened, and ultimately the system collapsed” (Blyth 2003, 240).

The action taken by President Nixon in 1971 in unilaterally abrogating Bretton Woods can plausibly be seen as an attempt at reasserting classic sovereignty. In other words, given that a fixed exchange rate system seemed to deliver decreasing benefits to the US territorial economy then it would be best to abandon it (e.g. Gowa 1983). Whatever the intention, the outcome was a system in which the dollar was liberated from gold and after 1973 floated freely against other major currencies (Eichengreen, 1996). Rather than a return to the US\$ as a territorial currency, therefore, the US\$ has become an even more transnational currency than that augured by the Eurodollar market of the 1960s.

Arranged in discussion among the finance ministers of the G-5 (the US, Japan, France, Germany, and Britain) in 1975, the floating exchange-rate system was formalized in 1978 by a Second Amendment to the Articles of Agreement of the IMF. This removed the role of gold, legalized floating, and obliged countries to promote stability in exchange rates by authorizing the IMF to oversee the monetary policies of members. This was all something of a “leap in the

dark” (Eichengreen 1996, 139). No one really knew how it would work. In the 1970s many established monetary policies co-existed with the new system, such as capital controls and concerted intervention. New financial devices designed to cope with increased volatility in exchange markets, such as futures and options, bred speculation and further volatility (Strange 1994, 59). The large quantity of dollars introduced into world financial markets by the OPEC-inspired increases in the price of oil had an additional stimulative effect, given that world oil prices were denominated in US\$. This was to lead to the spate of lending by international banks that produced the debt crisis for countries that received loans but then were faced with declining terms of trade plus large interest-rate increases in the 1980s as the US Federal Reserve tried to wring inflation out of the US economy. But in the 1980s, partly in response to persisting stagflation and partly to the increased popularity of ideas of market superiority over state regulation, most industrialized countries moved towards greater exchange rate flexibility by abolishing targeting and reducing interest rate interventions. Policy coordination among countries did help to some degree in reducing volatility in foreign exchange markets.

The net effect of the post-Bretton Woods turn of events, therefore, has been to make the US\$ into a transnational currency. In a sense the dollar has inherited its role from Bretton Woods when it was “the central numeraire” for the system as a whole (McKinnon 2001, 3). As the currency of the world’s largest territorial economy with a long-established and dominant presence in world financial markets, the dollar was not “dethroned” when the official exchange rate parities collapsed in 1971. If anything, the opposite has happened. The US\$ has become “the vehicle currency in the interbank spot and forward exchange markets, the currency of invoice for primary commodity trade and for many industrial goods and services, and the main currency of denomination for international capital flows – particularly at short term and interbank. Outside of Europe, governments use the dollar as their prime intervention currency – often pegging to the dollar, and U.S. Treasury bonds are widely held by foreign central banks and treasuries as official exchange reserves” (McKinnon, 2001, 3). This is because, as McKinnon and others have argued, providing transnational money to the world economy is a natural monopoly. For one thing, in a world of more than 150 territorial currencies tremendous savings in transaction costs occur if just one currency is chosen as a vehicle currency. All foreign-exchange bids and offers can be made against the one currency. For another, significant economies of scale accrue from pricing and invoicing goods and services in international trade in

one territorial currency. The fact that major commodity exchanges are also located in the US, in Chicago and New York, gives a further fillip to the dollar.

Quantitative indicators back up this interpretation of the US\$ as the main transnational currency of the global economy. The use of transnational currencies, especially the US\$, has grown exponentially over the past thirty years. Such currencies bind together global commodity and financial markets scattered around the world, provide the medium for global trade and commerce, and give a store of value for businesses and households holding the currencies in lieu of risking their savings in more volatile territorial currency accounts. For example, to use data from a period of global recession to minimize exaggeration, daily turnover in foreign exchange markets went from \$620 billion in 1989 to \$1.3 trillion in 1995; approximately a 30% increase per annum (Cohen 1998, 98). Somewhat parallel, both foreign exchange reserves held in dollars and private cross-border holdings of dollar assets grew enormously during the period 1985-2000. The latter went from \$1 trillion in 1985 to close to \$6 trillion in 2000, while the latter more than doubled over the same period (Cohen 1998, 98; Lambert and Stanton 2001; Davidson 2002). In 1999, dollars made up more than 50 per cent of the money supply in seven countries, 30-50 per cent in twelve, and 15-20 per cent in many others (Balino et al., 1999).

The dollar, therefore, is not just a matter for America, because the dollar is not just America's currency. Over one-half of all dollar bills are held outside US borders. Almost one-half of US Treasury bonds are held as reserves by foreign central banks (Porter and Judson 1996; Davidson 2002). Other currencies cannot, at least as yet, rival this global reach. Consequently, to some economists, the world is now on a de facto dollar standard (McKinnon 2001; Davidson 2002). Certainly, more and more territorial currencies now float freely against the dollar (and other currencies) with the US\$ as the common unit of comparison. The percentage of IMF members with pegged exchange arrangements declined from about 77 per cent in 1977 to 36 per cent in 1997, while the percentage with free-floating arrangements increased from 12 per cent in 1975 to 25 per cent in 1997 (IMF 1997). But the trend from fixed exchange rates to more flexible arrangements can be exaggerated in general and with respect to free floating against the dollar in particular. Rather than freely floating against the dollar, many currencies still take the form of managed floats or relatively fixed pegs. Moreover, the coming of the Euro offers a potential alternative currency of wider use to the dollar.

What is more important about the dollar than its role as a monetary standard is the revolutionary hollowing out of other territorial currencies that it has facilitated. It is now a direct means of exchange in many countries that still have their own territorial currencies. Indeed, in many financial centers irrespective of country it is the currency of most transactions. Such informal dollarization is one of the main features of the transnational uses of the US\$. At the same time, the dollar is still also the currency of the United States. Specifically, the US uses its dollar to finance its large current account deficit. Of course, all those foreigners holding dollars have a stake in keeping up the flow of dollars into the rest of the world. They have an interest in keeping the whole system in motion. For this reason, as McKinnon (2001) argues, America's creditors have a stake in preserving the dollar's role as a transnational currency even as the US current account deficit balloons. As a country with a large financial services sector, the United States also benefits indirectly from the globalist regime that the US\$ serves as a transnational currency. This sector has a vested interest in seeing use of the dollar expand around the world. They also are powerful political proponents, as is the financial sector in Britain, the only other country that has both a chronic current-account deficit and a major financial services sector, of liberalized global capital markets (Blyth 2003, 255).

The Achilles' heel of the US\$ as a transnational currency is that although it gives the US a "uniquely soft credit line with the rest of the world" (McKinnon 2001, 8), it also (as in relations with China) opens up the US economy to competition in sectors where it is less competitive internationally (as in labor-intensive manufacturing) and portends a future in which the US will have to rely on foreign-owned capital and foreign central banks (even if in dollars) to finance its domestic economy. As a net importer of 69.2 per cent of total global capital flows in 2001, the United States risks unbalancing its own economy (through the loss of certain kinds of jobs, etc.) in order to provide a transnational currency to the rest of the world. Foreigners may not need to care that much about the US current account deficit, therefore, but Americans are a different question entirely.

The European Union

Though what today is known as the European Union can trace its roots back to the European Coal and Steel Community of the early 1950s and the European Economic Community of 1957, it was not until the disintegration of Bretton Woods in 1971 that much effort was made to implement some sort of managed currency system among member states. And it was not until

the late 1980s, in fact, that a fully-fledged monetary union became a major objective of the organization. European monetary unification through the creation of a shared currency, therefore, has had two distinct origins. One is as an economic response to the end of Bretton Woods. The other is much more clearly political: building European integration on monetary unification.

In the European Community attempts at reducing volatility among European currencies gave rise first to “the Snake” or managed float in the early 1970s. This was a collective arrangement whereby the six original members pegged their exchange rates within 2 ¼ per cent bands. The Snake did not last long, mainly because the oil shock of 1973 had devastating effects on the weaker currencies and as governments adopted expansionary fiscal policies, such as France did in 1976, they had to leave the Snake. Eventually, by 1978, the idea of pegging currencies within unchanging bands had run its course particularly when the European currencies were simultaneously floating against the dollar. The European Monetary System (ERM) replaced the Snake in 1979. Under this arrangement, the German mark assumed the strong-currency role that the dollar had performed under Bretton Woods. Eight of nine EC countries participated in the ERM (Britain was the sole exception). Italy was allowed to have a 6 per cent band for a “transitional” period because of persisting high inflation whereas the system as a whole had ones of 2 ¼ per cent. There were no withdrawals during the 1980s but the first four years were turbulent mainly because the Mitterrand government in France embarked on an expansionary fiscal policy. Once this was abandoned, however, policy convergence across members made it easier for the system to respond to the relative strengthening of the dollar in the late 1980s. “Europe’s ‘minilateral Bretton Woods’ appeared to be gaining resilience” (Eichengreen 1996, 167).

It was precisely at this moment, however, that a set of non-monetary concerns emerged across the countries of the European Union. These included the ability of European firms to compete with the US and Japan, reduce unemployment, maintain European welfare programs in the face of pressures exerted through the floating dollar to liberalize labor markets and pension programs, reinvigorate the “European project,” and create a single European market through the removal of capital controls. A new vision of Europe based on these concerns found expression in the *Delors Report* of 1989 and in the Maastricht Treaty of December 1991. Eliminating currency conversion costs was one of the ways of forging an integrated market. Concurrently,

one way of liberalizing trade among members without stimulating protectionism was to remove the threat of member governments engaging in exchange-rate manipulation. The only way to do these two things was to create a shared currency for the entire EU. Without moving forward to monetary union the fear also was that the political project of European unification would also founder in the face of the transnational threat to Europe from the US and Japan economic competition.

The Maastricht blueprint for monetary union threw continuing political commitment to the EMS into immediate doubt. Along with the global recession of 1990-92, the decline of the dollar against the mark, and the rise in German interest rates following German reunification, this sealed the fate of Europe's experiment in managing currencies (Eichengreen 1996, 171-81). What replaced it in the 1990s was the movement towards a shared currency by declaring a set of fiscal and monetary criteria for accession to monetary union. These criteria – freeing central banks from political control, setting inflation, government debt, and government spending targets, etc. – should be understood not just as goals in the pursuit of price stability and trade benefits. Rather, “European monetary integration can be best understood as a political compromise involving divergent ideas and preferences within Europe, specifically between France and Germany” (Chang 2003, 219). If the French government desired to enhance France's and Europe's independence from the United States, Germany wanted to see its reunification accepted as unthreatening to the rest of Europe. If the Bundesbank-like role assumed by the European Central Bank (ECB) represents what the Germans wanted out of the system, an independent bank devoted to keeping inflation under control, the French have acquired a currency that can potentially challenge the US\$ as a transnational currency.

The transition to a shared currency has gone through three stages as foreseen in the Delors Report and agreed to in the Maastricht Treaty (Artis 1992). The first stage from 1990-94 saw the removal of capital controls among potential members, political independence for central banks, and convergence towards treaty obligations. The second stage from 1994 to 1999 saw the convergence of macroeconomic indicators and policies and planning for introduction of the new currency. Finally, the third stage has seen the introduction of the new currency, first along side the existing territorial currencies and then instead of them. The implementation went remarkably smoothly. Since January 2002 the Euro has been the sole legal tender in all of the EU countries

except Britain, Denmark, and Sweden who have chosen to remain outside for the time being (Underhill 2002).

In a sense, of course, the shared currency is simply a new territorial currency for a larger area. But it also has a couple of other features that do set it apart from being just that. One is that it is already a transnational currency, in that after the dollar it is now the most important currency for world wide financial transactions. Critically, inside Europe it has replaced the mark and the dollar as the two previously most important currencies in cross-border flows. Second, it is peculiar in that individual states have retained control over fiscal policy even as they have ceded control over monetary policy to the ECB and the foreign exchange markets. If the latter has tended to lead towards a more “Anglo-American” market capitalism in Europe’s financial centers (Dyson 2002, 363), the former has created serious problems as some member countries, notably France and Germany, have already violated the excessive government deficits rule (no more than 3 per cent of GDP) that they agreed to follow when planning the shared currency (Major 2003). The EU’s fiscal rules, therefore, appear simultaneously unenforceable and unchangeable. Until there is some parallelism in Europe between the levels at which fiscal and monetary policies are made this is likely to be a continuing problem for the shared currency and any deepening of its role as a transnational one (Wachtel 2003).

Latin America

The US has long had a strong influence over monetary policy in Latin America. In the early 20th century this took the form of encouraging the use of the US\$ as part of a “gold standard diplomacy” (Rosenberg 1985; 1999) that would bring monetary stability to the region and make it easier for US business to operate if countries possessed currency units that were identical in value to the dollar. In Rosenberg’s (1999, 24) words, the idea was to “create a gold dollar bloc, centered in New York, to rival the de facto sterling standard.” At the same time, dollar diplomacy also could involve encouraging straightforward adoption of the dollar itself. This dollarization, however, usually meant the use of the US\$ alongside the territorial currency, not exclusive use of the dollar in its place (Helleiner 2003c). By the 1920s dollar diplomacy of both species had largely peaked. Increasing Latin American nationalism, the various advantages of issuing a territorial currency (identified earlier), and serious current account crises that the economic thinking of the time suggested needed activist monetary policies conspired to limit the substitution of national currencies by the dollar.

After the Second World War, official US policy was to discourage use of the dollar as a substitute for territorial currencies in the region. The new priority was national economic development, so the best monetary policy should be an independent one with each country having its own currency. Of course, this fit into the conventional economic wisdom of the times as manifested in the Bretton Woods Agreement and many other US-sponsored policies in the late 1940s and 1950s. Indeed, US governments even endorsed economic nationalist policies such as import-substitution industrialization, partly as a tool to undermine left-wing groups and co-opt nationalists to the American side in the Cold War, but also because large American manufacturing firms wanted to build factories behind high tariff walls to serve local markets (Maxfield and Nolt 1990). This illustrates how much US monetary policy in Latin America at the time reflected US foreign policy interests and the relative influence of large-scale US manufacturers compared to financial and US investors in mines and agriculture (Helleiner 2003c, 419). But it also suggests strongly that the state territories were seen by locals and Americans alike as very much the basic building blocks for all economic policies. In this regard, US policy in Latin America differed considerably from British and French policies in Africa and elsewhere that often pushed for currency blocs (such as the Franc CFA zone in former French colonies in West Africa) or currency boards to limit the monetary discretion of the local governments (Helleiner 2003b).

Beginning in the 1970s dollar diplomacy returned to the American agenda in Latin America. Price stability replaced economic growth as the central goal of US policy towards the region. This was obviously part of the ideological shift towards neo-liberalism that followed the freeing of currencies from fixed exchange rates after the collapse of Bretton Woods. But economic conditions in Latin America also made the change seem more imperative than it otherwise might have appeared. In particular, a number of factors played a role in making price stability a higher priority than formerly. Two were especially crucial: the extremely high inflation rates in the countries of the region and the growth of export-oriented FDI as the motor of economic development in place of import-substitution. As a result, the elimination of exchange-rate risk has come to be widely seen as likely to foster US trade and investment throughout the region (Helleiner 2003c, 421). In 1999 a bill devoted to the spread of official dollarization throughout Latin America was actually introduced in the US Senate. But after a flurry of interest enthusiasm seems to have faded. Cohen (2002) maintains that, from a US

perspective, it is likely that US governments will remain passively neutral about official dollarization. Although there are seigniorage, transaction cost, conversion cost, prestige, and geopolitical advantages, many of these can be gained by unofficial and surreptitious dollarization. Official dollarization has the major drawbacks of exposing the US politically if economic growth stalls and imposing costs if the US has to intervene in financial crises. Only if the Euro came to challenge the status of the dollar as the pre-eminent substitute currency in Latin America, the currency Latin Americans really want to have, does Cohen think that US policy might become more aggressive in pushing official dollarization.

In Latin America itself, Ecuador and El Salvador have enacted legislation in recent years to fully dollarize their economies. Panama has been largely dollarized from its origins as an American dependency at the time of the construction of the Panama Canal. Elsewhere, however, full dollarizations (either official or unofficial) have not occurred. From 1991 until 2002 Argentina did employ something like a currency board to maintain a fixed exchange rate between the peso and the US\$ but the charter of the board allowed considerable discretion to the monetary authorities (Hanke 2003). This cannot be seen as a true case of official dollarization. Many other Latin American countries in fact now float their currencies freely against the dollar and other currencies (IMF 1997; Berg et al. 2003). From this point of view, Latin America is now relatively less dollarized than it was in the late 1980s when many of its countries had currencies that were closely pegged to the dollar or adopted so-called intermediate mechanisms such as crawling pegs and bands (Jameson 1990; more generally on trends in adopting fixed versus floating exchange rates across developed and developing countries, see Bernhard et al. 2002).

Unofficial dollarization is a different matter entirely. Although much more difficult to document than official dollarization, this is clearly substantial in amount and effects. For example, in Argentina in 1992, one study estimates that the dollars in circulation amounted to \$26 billion or around 11 per cent of Argentine GDP (Kamin and Ericsson 1993). In Bolivia and Uruguay in the same year, the ratio of paper dollars to local currency was reported as an incredible three or four to one (Calvo and Vegh 1993). Bank deposits in different currencies are easier to track than physical flows of cash. Many Latin American countries allow dollar-denominated deposits in domestic banks. Cohen (1998, 112-3) reports figures that suggest perhaps as much as 80.9 per cent of all deposits in domestic banks in Bolivia in 1992 were of

foreign currency (almost entirely dollars one surmises). In the same year in Argentina the comparable figure was 41.5 per cent. In 2000, the range went from a high of 92.5 per cent in Bolivia to a low of 4.9 in Mexico with a mean of 49.2 per cent across countries that allowed foreign currency bank deposits (Berg et al. 2003) (Table 3).

Table 3: Unofficial Dollarization in Latin America? Foreign Currency

Bank Deposits as Per Cent Share of Total Deposits

<i>Mexico and Central America</i>	30.9
Costa Rica	45.7
El Salvador	8.2
Honduras	23.2
Mexico	4.9
Nicaragua	72.8
<i>South America</i>	62.2
Bolivia	92.5
Chile	12.5
Ecuador	39.9
Paraguay	63.6
Peru	78.2
Uruguay	84.2
<i>Total Mean</i>	49.2

Source: Berg et al. (2003, 26).

All this adds up to a major unofficial (or spontaneous) dollarization. The reasons for this are not difficult to find. They range from the fact that drug trafficking, one of the Andean countries main economic activities, is an entirely dollar business through remittances from migrants to the United States (this is particularly important in Central America) to the salting away of dollars as a defense against inflation and to aid in the acquisition of dollar assets abroad (i.e. capital flight). The fact that many states, particularly in Central and Andean America, fail to raise enough tax revenue to pay for even the barest of modern states, including adequate monetary regulation, also leads their own elites to look to the dollar as the best guarantee of future wealth. Lying behind much of the unrealized sovereignty of Latin American states is the fact that Latin America is now oriented almost completely towards the United States both as a source of investment and as the destination for many of the region's commodity exports, migrants, and capital. It is Latin America's dependence on the US economy that has produced

the substitution of the dollar for territorial currencies throughout the region. That this is mainly unofficial or the result of diffusion of the dollar into the economic fiber of the region rather than the outcome of a formal adoption of the dollar as a replacement for the territorial currencies is nevertheless a significant strike against the possibility of real monetary sovereignty on the part of Latin American countries. In this regard, effective sovereignty lies to *El Norte*.

Conclusion

The conception of sovereignty that predominates in political theory relies on the idea of exclusive political authority exercised by a state over a given territory. This idea reflects the concept of sovereignty that emerged from Westphalia and then developed along with Enlightenment and Romantic ideals of popular rule and patriotism. Governments continue to act as if the concept is actually descriptive of the contemporary world. But this standard conception is a poor guide to political analysis. It is a “truth” that has always hidden more than it reveals. In a globalizing world this obfuscation is particularly problematic. We cannot meaningfully apply the orthodox conception of sovereignty to the conditional exercise of relative, limited, and partial powers that local, regional, national, international, and non-territorial communities and actors now exert.

I have proposed an alternative to the orthodox approach to sovereignty that draws from recent critiques of the orthodoxy’s understanding of political authority to which I have added a critique of its understanding of spatiality as absolute territoriality. This alternative model relies on the idea of “sovereignty regimes” or combinations of degrees of central state authority and consolidated or open territoriality. I have empirically demonstrated the efficacy of this approach to disentangling the impacts of globalization on state territoriality by examining various ways in which monetary sovereignty, perhaps the most obviously symbolic as well as important material manifestation of state sovereignty, has come under challenge. I have identified four distinctive currency processes under contemporary global political-economic conditions – territorial, transnational, shared, and substitute – that may be mapped onto the four types of sovereignty regime, respectively, the classic, globalist, integrative, and imperialist. This typology has the virtue of distinguishing various ways in which globalization intersects with state territoriality to produce very different modes of actually-existing or effective sovereignty in the world today. It also provides a way of gauging differences in the meaning of sovereignty over time and space and thereby moves beyond the sterile debate over whether some sort of universal “state

sovereignty” is eroding. When assumptions about the fixed and universal nature of territoriality no longer work to locate sovereignty in place, we begin to see that there is political life beyond the sovereign construction of territorial space.

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