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Unparalleled Opportunities or Unmitigated Risk? Economic Globalization and its Impact on State Capacity in the Developing World

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Unparalleled Opportunities or Unmitigated Risk? Economic Globalization and its Impact on State Capacity in the Developing World

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I affirm that I have upheld the highest principles of honesty and integrity in my academic work and have not witnessed a violation of the honor code.

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Economic globalization is a phenomenon driving major developments in the international system. With the force of this phenomenon shaping events within states and interactions among them, the question of economic globalization's impact on state capacity is worthy of an in-depth analysis. In this work I use economic globalization as the central explanatory variable and state capacity as the dependent variable and seek to establish an empirical relationship between the two that will offer the social science community a better understanding of how this phenomenon is shaping state capacity in developing countries. Based on available scholarship, I argue that economic globalization in its current form poses major issues for state capacity in developing states at international, national, and structural levels. I explore policy ramifications for the potential threat that economic globalization poses for that ability of state capacity in the developing world to mitigate economic globalization's destabilizing effects.

Introduction:

Economic globalization as it relates to the developing world is a relatively new phenomenon. The first era of post-World War II globalization embodied in the Bretton Woods system largely excluded the developing world, much of which were still undergoing the trials and tribulations of decolonization during the 1950s, 1960s, and into the 1970s when Bretton Woods faded away. By the 1980s however, the integration of developing states into the global economy coincided with the rise of neoliberalism that replaced the Keynesian economic logic underlying Bretton Woods. This neoliberal economic thinking encouraged the rollback of state involvement in the economy, reduction of taxes and regulations, reduction in the size of the social welfare state, and weakening of the power of organized labor (Evans, 1997). These policies, which soon famously became dubbed the "Washington Consensus" became the new economic orthodoxy in the developed world with serious ramifications for developing states' political economies and with it their state capacities.

The impact of economic globalization on developing states' capacities has been significant since their integration into the neoliberal global economy in the 1980s. Putzel (2005) mentions how economic globalization should not be viewed as a monolithic event impacting countries in the same fashion; rather, globalization has varying degrees of influence on state capacity based on their characteristics. These characteristics of states can exist at both the institutional and structural levels of states both internationally and nationally. By analyzing available scholarship, a better understanding can be achieved of what precise institutional and structural factors determine economic globalization's impact on state capacity in developing states. Based on the scholarship I examine, I hypothesize in this work that economic globalization will result in a reduction of state capacity for developing states.

Literature Review:

The role of international financial institutions and through them the developed world's influence on compelling developing states to adopt neoliberal economies consistent with economic globalization has had major ramifications for state capacity. This is because as Putzel (2005) states the World Bank and International Monetary Fund (IMF), champions of neoliberal economics, are Western institutions and as a result have been used to advance the developed world's economic agenda of export-oriented economies in their tireless pursuit of markets. Evans (1997) argues that the structural adjustment programs developing states have undertaken at the recommendations of the IMF and World Bank in order to transition to a neoliberal economy have significantly weakened state capacity in developing states.

The liberalization of capital flows consistent with economic globalization in its current form has seriously reduced state capacity in a number of developing states. This is because states now lack the capacity to manage markets increasingly dominated by global supply chains regarding capital flows. This weakens state capacity in these developing states as their jurisdiction over regulating markets is restricted. Liberalized capital flows pushed by the IMF and World Bank have also empowered Multinational Corporations (MNCs) at the expense of state power as these developing states are not able to monitor nor effectively regulate MNCs' activities (Evans, 1997). As Evans (1997) goes on to argue, state capacity in these developing states is further weakened as states cannot protect their citizens from the economic effects of over speculation and consumer abuse that have resulted from liberalized capital flows. This is because the IMF and World Bank have also encouraged a weakening of the regulatory state consistent with neoliberal economic thinking that seeks minimal government involvement in the economy. Therefore, with regards to financial policies international institutions have played an important role in encouraging developing states to liberalize capital flows in order to globalize economically, with negative effects for state capacity in the developing world.

International institutions have also encouraged developing states to engage in cut-throat competition with each other in order to attract foreign direct investment (FDI), a hallmark of economic globalization. This has had the effect of reducing state capacity further as Evans (1997) states. This is because developing states in order to remain competitive in a globalized economy are forced to implement austerity measures, drastically cutting public services and limiting state involvement in the economy. This serves to weaken state capacity as they are no longer able to effectively manage the economy, oversee and regulate markets, or provide public services to ensure adequate living standards for citizens (Evans 1997). Rudra (2002) argues developing states in particular have weakened their labor unions and social welfare states in order to attract FDI from MNCs. This weakens state capacity as Rudra (2002) argues because the state is less involved in protecting the welfare of its citizens and as a result, living standards become stagnant and economic insecurity more pronounced. Eakin and Lemos (2006) also argue that the cut-throat competition prioritizing growth above all else has led to the evisceration of environmental regulations in developing states. This weakens state capacity in the long term as in order to attract FDI environmental degradation becomes accepted as a means of doing business. By doing this, developing states are exacerbating the crisis of climate change and the political, economic, and health risks involved that will place great long-term strains on state capacity. Evans (1997) refers to this cut-throat competition for FDI as a “race to the bottom” which, encouraged by the IMF and World Bank, has placed great strains on state capacity in developing states and weaked it considerably in the process.

Moore (2011) has argued that austerity measures and neoliberal economic policies pressed by international institutions on the developing world have deprived governments of revenue in developing states. This weakens state capacity as developing states lack revenue to fund public services such as education, health care, and social welfare programs. Economic globalization has also created more opportunity for smuggling to occur, further depriving states of revenue as new markets to the developed world open up. This further weakens state capacity in developing states as they are unable to monitor and thus collect revenue from these transactions. The example of blood diamonds in Sierra Leone is significant as the smuggling of diamonds to the developed world fueled civil war in the country, leading to a period of state failure (Moore, 2011). Increased

opportunity for tax havens is another problem facing state capacity in developing states as they are pressured to embrace economic globalization from the IMF and World Bank. Tax havens enable the wealthiest in these developing states to shield their income from taxation, depriving the government of revenue and forcing them to shift the tax burden to the middle and working classes. In the process state capacity becomes weaker as its ability to collect revenue decreases and through taxation of poorer classes less revenue is collected overall (Moore, 2011).

Williamson (2005) takes a hybrid approach toward economic globalization's impact on state capacity and the role of the international financial institutions. Challenging the notion of a "Washington Consensus" of neoliberalism, Williamson (2005) argues that this consensus has broken down. Disputes between the U.S. Treasury Department and the IMF over liberalized capital flows and income distribution in developing states are examples of how this supposed

consensus driving neoliberal economic globalization is in fact contested. Williamson's (2005) hybrid approach to the role of international institutions' impact on state capacity comes from his selective praise and criticism of different aspects of the neoliberal agenda pushed by the IMF and World Bank. The liberalization of trade and privatization of major industries has had a positive impact on economic growth and higher living standards, in the process strengthening state capacity as these countries are benefiting from economic development (Williamson, 2005). Williamson (2005) does concede, however, the need for economic globalization in developing states to include promotion of institutions rather than simply policy as a means to prevent state capacity weakening as a result of economic globalization.

The need for the IMF and World Bank to promote the establishment of institutions along with policy is the only way to assure structural adjustment programs result in strengthened state capacity from economic prosperity as Williamson (2005) argues. Efficient tax collecting institutions, competent civil service, and sensible government involvement in the economy are needed in order to mitigate the negative impacts of economic globalization such as reduced sovereignty and rising inequality. In this respect, Williamson (2005) diverges from the pillar of the "Washington Consensus" of minimal government involvement in the economy. Recognizing the importance of the state being involved in the economy to manage it effectively and protect citizens from the insecurities of markets, Williamson (2005) advocates modifying the "Washington Consensus" in order to make it more successful while supporting other central tenets such as liberalized trade, FDI, and privatized industries. By doing this a more sustainable

form of economic globalization can be achieved that promotes both economic growth and human security that will strengthen rather than weaken state capacity in the developing world. Williamson (2005) therefore advocates the adoption of these policies by the IMF and World Bank in order to enable structural adjustment programs in developing states to strengthen rather than weaken state capacity.

Weiss (2000) takes a contrarian approach to economic globalization's impact on state capacity and the role of international institutions in driving it. Economic globalization and its empowerment of international institutions is not occurring at the expense of state capacity in the developing world but is only a relative challenge. The social impacts of economic globalization such as urbanization, environmentalism, and labor rights are issues solved at the national, not international level. This strengthens state capacity as states have jurisdiction to manage these problems themselves (Weiss, 2000). Weiss (2000) also argues that because states are engaging in economic globalization voluntarily, they are not experiencing reduced state capacity. In fact, economic globalization with its higher economic growth rates is generating more tax revenue and spurring economic development that is strengthening state capacity. The issue of economic integration characteristic of economic globalization is also enhancing state capacity in developing states. This is because it is enabling developing states to maximize their economic and political influence on the world stage through Intergovernmental Organizations (IGOs) (Weiss, 2000).

The argument presented by Weiss (2000) contests the arguments of previous scholars regarding economic globalization's impact on state capacity and the role of international institutions in it. There is a major critique of her argument, however, which its is important to mention.Weiss's (2000) assertion that developing states are engaging in economic globalization voluntarily is an incomplete understanding of power dynamics underlying the global economy. As Putzel (2005) emphasizes how international financial institutions driving economic globalization are controlled by the developed world, the developing world is forced to play by the rules of the developed states in order to have an opportunity to enjoy the benefits of economic globalization. This is understood in the neoliberal structural adjustment programs that have shaped the domestic economies of developing states in what Evans (1997) characterized as a "race to the bottom" to attract FDI with dire consequences for state capacity in developing states as mentioned earlier in this work. Those factors demonstrate how developing states are not necessarily engaging in economic globalization voluntarily; rather, they simply have accepted the risks that economic globalization poses for state capacity as they have deemed it too great a risk to be left out of a rapidly globalizing economy. This discrepancy in scholarship between Weiss (2000) and other scholars regarding international institutions and their role in economic globalization's impact on state capacity will be settled in the results and analysis section once an empirical relationship between economic globalization and state capacity in developing states is established.

Case studies of the role international institutions such as the World Bank and IMF play in driving economic globalization and its impact on state capacity seem to support the majority of scholarship analyzed earlier in this work. In the case of Southeast Asia amidst a financial crisis in the 1990s, the IMF and World Bank engaged in structural adjustment policies that weakened state capacity in those states. Englehart (2012) argues that the IMF and World Bank have actually weakened institutions in those developing states and also have fueled infighting within governments of these states, with negative consequences for state capacity.

The case of the Philippines provides an example of how these institutions insert themselves into the domestic politics of developing states to advance their own agendas. The IMF and World Bank supported factions within the Filipino government in favor of privatizing the water supply and, as a result, the Filipino government became divided and less effective (Englehart, 2012). The privatization of the water supply was achieved. However, what ensued demonstrates the role these international institutions play in pressuring developing states to embrace economic globalization in its neoliberal form with concomitant reduction in state capacity. The privatization of the water supply led to rampant corruption as pieces of the industry became vehicles for patronage and co-opting elites in the country. Equal access to water also became a major issue as communities became under-serviced and increased poverty and inequality resulted (Englehart, 2012). The example of the Philippines and their experiment with economic globalization driven by the IMF and World Bank demonstrates how a sole focus on how policy rather than institutions is so essential encourages developing states to adopt economies they lack the institutions to sustain. As a result, economic globalization in this case led to reduced state capacity as an essential good was underserviced and corruption increased

dramatically.

The case of the Philippines proves no outlier in terms of the role of international institutions play in imposing economic globalization on developing states with negative consequences for state capacity. Jinadu (2010) argues that the IMF and World Bank have played a negative role in state capacity in African states in relation to economic globalization. With the encouragement of austerity measures to slash public services and the privatization of industries, inequality and corruption have increased considerably on the continent. Jinadu (2010) mentions that African states are especially vulnerable to weakened state capacity from rising inequality as a lasting legacy of colonialism has created artificial states with large levels of ethno-religious heterogeneity. This makes African states more vulnerable to horizontal inequalities, inequalities that coincide with an identity group, which, in the absence of sufficient public services, can become an explosive issue leading to weakened state capacity and also state failure as these inequalities can spawn civil war. In the absence of a competent civil service, rule of law, and tax collecting institutions to fund public services, African states are also not in a position to embrace economic globalization in its neoliberal form, as Jinadu (2010) argues, because African states are too weak to engage with international financial institutions on an equal footing.

This demonstrates another case of how the IMF and World Bank play a pivotal role in driving economic globalization in developing states. Also, with its short-sighted focus on policy rather than institutions, developing countries are experiencing drastically reduced state capacity, which, in the case of African states, has at times even led to outright state failure and subsequent civil conflict. As Jinadu (2010) argues further, the rash of civil conflict across Africa during a period of hyper-globalization in the 1990s is no coincidence; rather, it attests to the influence economic globalization has on reducing state capacity in developing states.

The role the IMF and World Bank play in driving economic globalization and with it, influencing state capacity is relevant in the case of Latin American states as well. Eakin and Lemos (2006) argue that international financial institutions have pressured Latin American states to adopt neoliberal economies with similar negative results for state capacity. With the growth of FDI, MNCs have become empowered at the expense of states. For example, MNCs in Latin America are heavily involved in biotechnology as it relates to agriculture. Eakin and Lemos (2006) has argued this has reduced state capacity in these states as they are unable to regulate these MNCs effectively and, as a result, concerns about consumer protection from GMOs go unaddressed. This inability to regulate markets stems from these international institutions encouragement of civil service reforms that have resulted in sharply reduced state capacity as the administrative apparatus of the state becomes weakened.

The example of Mexico demonstrates this as between 2001-2005 the Mexican Agricultural Ministry reduced its size in terms of civil servants by thirteen percent (Eakin and Lemos, 2006). Although consistent with the neoliberal ideology preached by the IMF and World Bank of minimal government involvement in the economy, this caused great strains on Mexico's administrative capacity as it relates to agriculture. Farms failed with the lack of agricultural subsidies and the rollback of government involvement in the agricultural industry kept Mexico from shielding farmers displaced by economic globalization in the form of social welfare programs (Eakin and Lemos, 2006). This resulted in reduced state capacity as the government was unable to manage fluctuations in the economy and the agricultural sector in particular as pressure from international financial institutions encouraged Mexico to reduce its administrative capacity, leading to weaker state capacity.

Having examined scholarship regarding the role international institutions play in driving economic globalization in the developing world, it can be inferred that they play a pivotal role and in the process have greatly influenced state capacity with largely negative consequences. However, scholarship demonstrates that international institutions alone do not impact economic globalization's influence on state capacity. Rather, they are but one of a number of major factors that shape state capacity. Robinson (2008) argues that it is important to analyze institutions at the national level to gain a complete understanding of how economic globalization shapes state capacity in developing states. Williamson (2005) argues the need for economic globalization to emphasize institution building as well as policy in developing states. It thus can be inferred that it is as important to analyze institutions within developing states as it is to focus on international institutions in order to determine economic globalization's impact on state capacity in the developing world. Central among such national institutions are a competent bureaucratic apparatus, redistributive capacity in the form of a social welfare state, and the rule of law.

The existence of a competent bureaucratic apparatus is an essential component to strong state

capacity. Putzel (2005) mentions the importance of bureaucratic institutions in governing the state effectively, implementing policy, managing the economy, and generating tax revenue to fund public services. It is because of this a bureaucratic apparatus is an important component to state capacity as it goes to the ability of the state to provide goods and services and also govern. The existence of bureaucratic institutions is important for sustaining a transition to a liberalized economy from economic globalization without experiencing reduced state capacity. Robinson (2008) mentions how many developing states lack a bureaucratic apparatus capable of governing the country or collecting tax revenue effectively. As a result of this developing states embracing economic globalization lack the necessary bureaucratic institutions to manage it successfully. Bureaucratic institutions are needed at the national level to manage the economy, combat over speculation and consumer abuse, regulate markets, and generate tax revenue for public services (Robinson, 2008). The lack of a sufficient bureaucratic apparatus in many developing states is a reason why economic globalization has led to weaker state capacity. Developing states have adopted globalized neoliberal economies that they lack the bureaucratic institutions to manage and as a result experience reduced state capacity from economic globalization.

The redistributive capacity of the state, its ability to provide public services, along with bureaucratic institutions, is another major component of state capacity that is heavily influenced by economic globalization. Crepaz (2001) argues the importance of redistributive capacity in the form of a welfare state to ensure adequate living standards for citizens, combating inequality, and shielding those displaced by economic globalization. Economic globalization, however, has had major ramifications for state capacity in regard to the redistributive capacity of the state. Crepaz (2001) mentions how economic globalization has caused developing states to reduce the size of their social welfare states in order to attract FDI and conform with the neoliberal model of minimal state involvement in the economy. This presents developing states with a major dilemma as they need a sufficient welfare state in order to manage economic globalization, but are forced to reduce the size of it to remain competitive in the global economy, weakening state capacity in the process (Crepaz, 2001). Thus, in order to embrace economic globalization, the ability of the state to manage the adverse effects associated with economic globalization such as higher levels of inequality, environmental degradation, and displacement of workers from automation with public services becomes limited and state capacity becomes weakened.

Rudra (2002) also mentions how economic globalization has disproportionately led to the erosion of the social welfare state in developing countries. This is because as developing states possess an excess of low-skilled workers in comparison to the developed world, developing states are often considered a center for MNCs to conduct FDI. This leads to an intensified effort to roll back the welfare state and, along with it, labor rights and environmental regulations in order to attract those MNCs to developing states. As a result, developing states are less able to protect citizens from the adverse effects of economic globalization. Spending trends on social welfare as a percentage of Gross Domestic Product (GDP) attests to Rudra’s (2002) argument as the developing world spends five percent of its GDP on social welfare as opposed to fifteen percent in the developed world (Rudra, 2002). This demonstrates how economic globalization

can lead to the roll back of the welfare state and with it weakened state capacity in developing states. It also underscores how developing states in particular are vulnerable to this as their larger labor pool of low-skilled workers makes them an attractive option for FDI through MNCs. Charron (2013) mentions the impact of this on public services with the case of East European states in the European Union (EU). Following the EU's enlargement in the early 2000s, the effort to attract FDI in East European states has led to a weakening of the social welfare state disproportionate to the more developed West European member states. This, as a result, has undermined the ability of these East European governments to mitigate the negative consequences of economic globalization and higher levels of regional and human inequality exist with the absence of a sufficient welfare state (Charron, 2013). Therefore, economic globalization poses a distinct risk for the redistributive capacity of developing states and with it the risk of weakened state capacity as developing states find themselves unable to manage negative consequences resulting from economic globalization such as labor displacement from automation and rising inequality through social welfare programs.

The labor movements of developing states are also considerably weaker as, in order to attract FDI, labor rights are often restricted. The relative strength of labor movements in the developed world through unions has enabled citizens to extract more services from their governments as they have an organized lobby (Rudra, 2002). Rudra (2002) therefore mentions how the weakness of labor movements in developing states has rendered citizens less able to lobby their governments for more social welfare spending to secure higher living standards and achieve a

more egalitarian society. This is another important factor in developing states experiencing a rapid erosion of the welfare state in order to embrace economic globalization, one that has dire consequences for state capacity. As labor movements are weakened along with the welfare state in order to attract FDI, the ability of the state to compensate citizens threatened by the societal strains of economic globalization is reduced. As a result, higher levels of inequality and socio-economic deprivation persist that developing states are unable to address, leading them to experience weakened state capacity as a result.

The existence of the rule of law is an important institution at the national level necessary for stronger state capacity. Silverstein (2003) argues the importance of the rule of law for state capacity and notes how it is being influenced by economic globalization. A strong rule of law is necessary for the state to be able to hold its leaders accountable, monitor economic transactions, combat smuggling, and reduce corruption. The capacity of the state to do this is important in order to manage economic globalization more successfully and resist the threat of weakened state capacity (Silverstein, 2003). Moore (2011) argues how the absence of a rule of law increases opportunities for smuggling of goods and hoarding government funds with economic globalization as access to global markets expands. This weakens states as it deprives them of valuable revenue. In addition, bad behavior going unpunished encourages more abuse of power as leaders are not held accountable for their actions (Silverstein, 2003). Economic globalization is likely to reduce state capacity in developing states because of high levels of corruption that stems from the lack of a rule of law. As Silverstein (2003) suggests,

economic globalization and the opportunities it entails can incentivize states to invest in establishing a rule of law to attract FDI. Pointing to the case of Singapore, Silverstein (2003) mentions how the city-state invested heavily in adopting a rule of law and combating corruption in order to attract FDI, in the process experiencing rapid economic growth and prosperity from trade and investment opportunities.

Based on other scholarship regarding the rule of law, economic globalization and the opportunities it entails is not in itself strong enough to encourage the adoption of a rule of law to strengthen state capacity and thus better manage the phenomenon. Charron (2013) mentions how less developed East European states have consistently had higher levels of corruption than the more developed West European states with a richer history of the rule of law being in existence. This is because increased access to markets resulting from economic globalization can create new opportunities to engage in corruption that, with the absence of a rule of law, can erode state capacity. Due to a lack of a rule of law typical of developing states, the risks for economic globalization and state capacity is distinctly threatening to developing states. Eakin and Lemos (2006) argues that economic globalization without a rule of law can lead to a concentration of power in elites as newly privatized industries are used as vehicles for patronage rather than the welfare of the national population. Therefore, the existence of a rule of law is important for managing economic globalization by eliminating the opportunities for corruption that increases with its spread. The absence of a rule of law that disproportionately impacts developing states is a major factor in economic globalization reducing state capacity in those states because they lack institutions to combat endemic levels of corruption that can result.

Having analyzed scholarship regarding the role international and national institutions play in developing states with respect to economic globalization's impact on state capacity, I examine other characteristics of developing states that are important to achieve a complete understanding where state capacity is concerned. The societal, political, and economic structures of developing states are also important to analyze. One of these is the existence of of multi-ethnic states which, as Jinadu (2010) argues, exists disproportionately in the developing world as a result of the legacy of colonialism. As Olzak (2010) argues, multi-ethnic states are particularly vulnerable to weakened state capacity resulting from economic globalization. The economic structure, particularly in the case of natural resource dependent economies, is another important topic as ElGindi (2017) mentions such economies naturally have weaker state capacities that are threatened further by economic globalization. The regime type as it relates to state capacity and its influence on economic globalization is also relevant. This is because Cerny (1999) argues democracies have weaker state capacity as they require collective action to act and as a result are less able to deal with the adverse effects of economic globalization and experience weakened state capacity as a result. Analyzing scholarship regarding these structural factors of developing states is important for conceptualizing a number of control variables that will be used and discussed further in the results and analysis section of this work.

Economic globalization poses distinct risks for state capacity in developing states with high levels of ethnic heterogeneity. Putzel (2005) argues that the increase in intra-state conflict within multi-ethnic states is related to the spread of economic globalization since the end of the Cold War. In the case of intra-state conflict, economic globalization has brought on pressure to developing states that has resulted in outright state failure in the form of ethnic mobilization and subsequent conflict. Olzak (2010) explains this trend by discussing how multi-ethnic states in the developing world are especially vulnerable to reduced state capacity from economic globalization. Economic globalization creates more opportunity for inequalities to emerge; in the case of multi-ethnic developing states inequality coinciding with identity groups, then becoming known as horizontal inequalities. These inequalities are known as the most explosive and likely to cause conflict and subsequent state failure as ethnic identity is reinforced while grievances are generated that motivate group mobilization and conflict (Olzak, 2010). Therefore, with developing states unable to combat this inequality through social reforms, horizontal inequalities resulting from economic globalization remain unmitigated and reduced state capacity results. Olzak (2010) also found empirically that economic globalization above all other categories of the phenomenon reduces state capacity most strongly in multi-ethnic developing states. Olzak (2010) determined that severity of civil conflict is worst in multi-ethnic developing states when ethnic grievances are economic. These findings attest to the unique risk multi-ethnic developing states face from economic globalization as it can produce horizontal inequalities the state often cannot mitigate and reduction of state capacity as well as state failure can result.

In addition to creating horizontal inequalities, economic globalization poses other risks for

state capacity in multi-ethnic developing states. Economic globalization can create more opportunities for corruption to occur that can favor certain ethnic groups at the expense of others. This can generate grievances as privatized industries are used as vehicles for ethnic favoritism while national funds are directed disproportionately towards ethnic groups. This can cause group mobilization, ethnic unrest, and even conflict which in turn weakens state capacity (Olzak, 2010). Economic globalization can also increase consciousness about one's ethnicity as increased exposure to trade broadens opportunities for cultural exchanges that spawn ideas. This, however, makes ethnic mobilization more likely as increased consciousness is likely to consolidate group cohesion and make them much more aware of inequities in society. As economic globalization can exacerbate these inequities, state capacity faces enormous pressure from the threat of ethnic unrest once it becomes more likely to occur and when it does state capacity is reduced considerably (Olzak, 2010). As much of the developing world consists of multi-ethnic states as an enduring legacy of colonialism, this is a legitimate issue to analyze in order to gain a better understanding of the vulnerability of multi-ethnic developing states' capacities in the face of economic globalization. Based on scholarship, multi-ethnic developing states have a unique risk of state failure resulting from economic globalization. Having analyzed Olzak (2010) and Putzel (2005) it can be better understood how neoliberal economic reforms consistent with the orthodoxy of economic globalization have coincided with the proliferation of intra-state conflict throughout the developing world. Conflicts so often center around issues of identity and horizontal inequalities that economic globalization can greatly exacerbate.

Natural resource dependent economies are disproportionately located in the developing world. This is because, as ElGindi (2017) argues, such economies are generally underdeveloped to begin with for a variety of reasons. Natural resource dependent economies lose the incentive to establish both economic diversification and tax collecting institutions. This results in higher unemployment, poverty, and economic underdevelopment overtime as the lack of tax collecting institutions undercuts the ability of the state to fund goods and services as well as invest in human capital through education and healthcare. Natural resource dependent economies also have more opportunity for corruption that can stifle development and erode legitimacy for the government (ElGindi, 2017). Therefore, as natural resource dependent states in the developing world already have weaker state capacity based on their economic structure, economic globalization, ElGindi (2017) argues, has had major negative implications for state capacity in these developing states. In order to attract FDI from the energy industry natural resource dependent states have engaged in what Evans (1997) refers to previously in this work in a “race to the bottom” to attract investment. This has led to the erosion of what public services have existed as public spending and other mechanisms for social welfare have been rolled back in order to entice FDI (ElGindi, 2017). This is another example supporting Rudra’s (2002) argument that the developing world has disproportionately been impacted by gutting the welfare state in order to conform with neoliberal orthodoxy. Such a “race to the bottom” proves particularly problematic for natural resource dependent states in the developing world and its relation to state capacity. This is because such economies in developing states inevitably have more inequality from lack of economic diversity or sufficient tax collecting institutions. Economic globalization therefore sharply reduces state capacity as these states lack such institutions to manage rising inequality and more opportunities for corruption that can result from economic globalization (ElGindi, 2017).

The argument advanced by ElGindi (2017) that natural resource dependent developing states naturally have weaker capacities that are reduced further by economic globalization is contested by Kurtz and Brooks (2011). Kurtz and Brooks (2011) take a hybrid approach to economic globalization’s impact on state capacity in developing states with natural resource dependent economies. Natural resource dependency does not monolithically lead to weaker state capacity; rather, they argue, the effect depends on the national institutions that are in place. Most importantly, investment in human capital through education in natural resource dependent developing states is a means to increase both state capacity and economic growth with the occurrence of economic globalization (Kurtz and Brooks, 2011). Kurtz and Brooks (2011) argue that this investment in human capital will result in a more educated and skilled population which, with increased exposure to trade through economic globalization, will be able to utilize opportunities for innovation in developmentally favorable ways. This will lead to an increase in state capacity from economic growth and modernization driven by this skilled workforce embracing economic globalization.

The importance of national institutions and policies that determine economic globalization's varying degrees of influence on state capacity in natural resource dependent economies in the

the developing world goes beyond human capital investments as Kurtz and Brooks (2011) argue. The existence of a rule of law is decisive for natural resource dependent developing states as it can deter corruption, one of the most destructive traits of the resource curse for state capacity. The existence of a rule of law and how it relates to natural resource dependent economies is one of the primary fault lines between states experiencing enhanced and reduced state capacity from natural resource production as Kurtz and Brooks (2011) argue. The examples of increased oil production from Great Britain and Norway in the North Sea enhancing state capacity from economic growth and oil dependency reducing state capacity overtime as in the case of Angola and Nigeria are examples of the importance of a rule of law (Kurtz and Brooks, 2011). This is because with the onset of economic globalization natural resource wealth can be used for corrupt purposes such as smuggling, co-optation, and ethno-religious favoritism that with the absence of a rule of law can erode state capacity. This is relevant to the developing world as ElGindi (2017) mentions most natural resource dependent economies fall into the developing world and how their exposure to economic globalization can cause distinct but according to scholarship disputed risks for state capacity in these developing states.

Kurtz and Brooks (2011) presents an intriguing theory regarding the hybrid nature of economic globalization's impact on state capacity for states with natural resource dependency. Their emphasis on the importance of institutions at the national level conforms with the arguments of Williamson (2005), Robinson (2008), and Moore (2011) regarding the importance of institutions to manage economic globalization and ensure it does not lead to weakened state

capacity. One major shortcoming of Kurtz and Brooks' (2011) argument, however, is the assumption that developing states have the capacity to invest in human capital and utilize institutions such as a bureaucratic apparatus and rule of law. As Williamson (2005) and Robinson (2008) argue, economic globalization has reduced state capacity in developing states because of the lack of such national institutions like a rule of law and competent bureaucratic apparatus capable of generating revenue. The comparison between Great Britain and Norway and their success with natural resource production compared to Nigeria and Angola's struggle with the resource curse highlights precisely how developing states with natural resource dependent economies are at a unique risk for reduced state capacity from economic globalization.

The reason why these states are at increased risk for reduced state capacity is because many developing states do not have a rule of law or competent civil service like Great Britain and Norway. Necessary institutions for deterring corruption, generating revenue to fund public services, and undergoing economic diversification to reduce unemployment and poverty while enjoying the high levels of economic growth from natural resource production. On the contrary, developing states with natural resource dependent economies are unable to manage increased opportunities for corruption and inequality that come with economic globalization and experience reduced state capacity as a result. This is because they lack the institutions necessary for mitigating those risks such as bureaucratic institutions, public services, and a rule of law that developed states like Great Britain and Norway possess (Robinson, 2008). Developing states also cannot be expected to make necessary investments in the human capital that Kurtz and Brooks

(2011) argues is so critical for natural resource dependent economies.The lack of tax collecting institutions coupled with the slashing of public services in a "race to the bottom" that ElGindi (2017) mentions occurred in these developing states to attract FDI has made such investments impossible. These contesting theories between natural resource dependency, state capacity, and how it is influenced by economic globalization will be empirically tested in the results and analysis section of this work.

Regime type in developing states is important to understand as it can determine state capacity and its ability to manage economic globalization. Cerny (1999) argues that democracies themselves typically have weaker state capacity. This is because democracies are more likely to experience collective action problems in the form of gridlock compared to authoritarian regimes, as their centralized leadership style requires no collective agreement amongst various parties (Cerny, 1999). Therefore, as democratic regimes are more likely to possess less state capacity than authoritarian regimes, this suggests that democracies in developing states have been less able to manage economic globalization and are more vulnerable to reduced state capacity. Cerny (1999) argues democracies have been less able to manage challenges to state capacity arising from economic globalization such as the rise of MNCs, liberalized capital flows, and non-state actors emerging within borders such as organized crime and rebel groups. As these developments driven by economic globalization have reduced state capacity in developing states regardless of regime type, Cerny (1999) argues such developments provide unique challenges to democratic regimes. This is because of higher opportunity for gridlock in democratic regimes that can

paralyze an effective government response to these issues. As a result, democracies are less able to provide for the domestic security of their citizens in comparison to authoritarian regimes able to unleash unbridled force on challenges to state authority, organized crime, and rebel groups in particular. Cerny (1999) attributes these factors to the global trend of rising authoritarianism as developing states see an interest in adopting authoritarian regimes to better manage the stresses of economic globalization rather than investing in the institutions necessary to manage it.

Explanation and Hypothesis:

Having analyzed relevant scholarship, it is apparent that economic globalization has had the effect of reducing state capacity in developing states. Using economic globalization as the central explanatory variable, with state capacity acting as the dependent variable, an empirical relationship can be established. Based on relevant scholarship analyzed in the literature review section, I hypothesize that:

> H1: Economic globalization will result in reduced state capacity in the case of developing states.

The logic behind the hypothesis that I seek to argue is based on scholarship and the informed assumption of economic globalization leading to reduced state capacity in developing states. As Robinson (2008) makes clear, developing states have struggled to manage economic globalization because they lack the necessary institutions in place to manage the phenomenon effectively. With the absence of a competent civil service, rule of law, tax collecting institutions, and a sufficient social welfare state, state capacity is weak as developing countries are less able

to provide goods and services as well as exercise a monopoly on the use of force within their borders. Economic globalization and its more adverse effects such as rising inequality and corruption therefore can exacerbate these issues of state capacity, leading to a weaker state overall. As Putzel (2005) also mentions how the international institutions playing a role in economic globalization such as the IMF and World Bank are Western institutions, the developing

world is consistently forced to globalize on the terms of the developed world. Jinadu (2010) argues this results in an uneven power dynamic between developed and developing states and once those developing states are pressured to adopt a globalized economy under the neoliberal model, reduced state capacity results as these states lack the institutions to sustain this transition. Williamson (2005) also argues the importance of institution building for developing states, noting how the developed world's focus on neoliberal policy rather than institutions has resulted in developing states embracing economic globalization and subsequently experiencing reduced state capacity. Therefore, the logic behind this hypothesis is informed by scholarship and the knowledge of the importance of effective governing institutions for state capacity many developing states lack. This hypothesis will be tested empirically and subsequently analyzed in the results and analysis section of this work.

Research Design and Methodology:

The dataset used to conduct this empirical test is from the Dahlberg and Holmberg et. al (2019) QOG time series cross section dataset. The dataset extends from 1946-2018. The unit of analysis for this dataset and empirical test is the country year (Dahlberg and Holmberg et. al, 2019).

The dependent variable used to represent state capacity in this dataset is government effectiveness, coded as wbgi_gee. The variable government effectiveness represents important components of state capacity such as quality of public services and the bureaucracy, effectiveness at implementing government policy, the sincerity and competence of the government in enacting those policies, and its ability to distribute public goods and services (Dahlberg and Holmberg et.al, 2019). The variable is operationalized as a standard normal distribution, and is continuous measured from values of negative two point five to positive two point five, with lower numbers indicating poorer government effectiveness and higher levels indicating better government effectiveness. (Dalhberg and Holmberg et. al, 2019). The actual variable used in the empirical analysis was generated from government effectiveness in order to measure more precisely. The new variable, newgovef, captures the core aspects of state capacity in government effectiveness. This variable newgovef is continuous, measured on a scale of zero to five, with higher numbers indicating more government effectiveness and lower numbers reflecting less government effectiveness. This variable enables a more accurate empirical test of economic globalization's impact on state capacity as it includes only developing states and excludes developed states from the Organization for Economic Cooperation and Development

(OECD).[1] Therefore, this empirical test will include non-OECD countries using newgovef as the dependent variable to produce a sample reflective of the developing world.

One notable shortcoming of the dependent variable government effectiveness is its inability to distinguish between different institutions in place that can strengthen state capacity. This denies us the opportunity to measure empirically whether certain institutions play a stronger role in enhancing state capacity, such as a competent civil service, rule of law, social welfare state, or tax collecting institutions. Being able to have done so would generate an opportunity for the social science community to understand which national institutions are most important in strengthening state capacity in order to understand policy implications for building state capacity in developing states. Whether certain institutions are interdependent or prerequisites for establishing other institutions afterwards are valuable facts for policy makers to know in building state capacity in developing states. Nonetheless, the variable covers core aspects of state capacity that will enable us to achieve a broad understanding of economic globalization's impact on state capacity in developing states and what policy implications empirical data produces.

The central explanatory variable in this dataset is economic globalization, coded as dr_eg. It is represented in levels of integration in the global economy through trade, FDI, and exchange of capital and services between states. It is measured continuously from a scale of one to one hundred, with lower levels indicating less economic globalization and higher levels indicating more economic globalization (Dalhberg and Holmberg et. al, 2019).

[1] List of OECD Countries :https://www.oecd.org/about/members-and-partners/

Control variables in the Dahlberg and Holmberg et. al (2019) dataset were meant to influence state capacity in this empirical analysis. Through their use, a better and more complete understanding regarding state capacity in developing states and how it is influenced by economic globalization can be achieved. The control variable oil production, measured in levels of oil production values in 2014, is coded as ross_oil_value_2014 (Dahlberg and Holmberg et.al, 2019). This control variable is an opportunity to examine empirically the effect of natural resource dependence on state capacity that was discussed in detail in the literature review section. It also presents an opportunity to resolve empirically the contesting arguments presented by ElGindi (2017) and Kurtz and Brooks (2011) regarding the role of natural resource dependency on state capacity in developing states that was analyzed in the literature review section of this work. I anticipate that the empirical study will support ElGindi's (2017) argument that natural resource dependency as measured in oil production values will have a negative relationship to state capacity. This is because as ElGindi (2017) argues natural resource dependency leads to lack of economic diversification, causing more poverty and underdevelopment overtime but also higher levels of unemployment and less tax collecting institutions to fund public services for citizens. The use of the rule of law is another control variable that is an important indicator of state capacity. As Silverstein (2003) mentions, its importance is ensuring government leaders are held accountable for their actions, deterring corruption, and promoting transparency in economic and political transactions. In the Dahlberg and Holmberg et.al (2019) dataset, the rule of law is coded as wbgi_cee. A measurement of control of corruption, this variable represents the ability of the state to counter efforts by public officials to use office for private gain, and ensure elites do not use the state for private benefit (Dahlberg and Holmberg et. al, 2019). This is an opportunity to empirically measure the

importance of the rule of law and its existence in strengthening state capacity in developing states. I anticipate in this work that the rule of law will have a positive relationship with state capacity and support Silverstein (2003) in his assertion that a rule of law is an important component in having an effective state and stronger capacity. Ethnic fractionalization is another control variable used in this study coded as al_ethnic. The variable is based on varying racial and linguistic characteristics amongst various groups within states (Dahlberg and Holmberg et. al, 2019). Olzak (2010) argues how multi-ethnic states can have weaker state capacities. This is because it can create more opportunity for division and embitterment amongst ethnic groups if there is a perception of exclusion or discrimination. I anticipate that ethnic fractionalization will support Olzak (2010) in her argument and therefore a negative relationship will exist between ethnic fractionalization and state capacity. The last control variable used will be regime type, coded as chga_demo. An advantage to this variable is its ability to distinguish between democratic and non-democratic regimes. This variable is scored “0,” indicating that a state is not a democracy, and “1,” indicating that a state is a democracy (Dahlberg and Holmberg et. al, 2019). This offers an opportunity to precisely measure regime type’s impact on state capacity in developing states. Cerny (1999) argues that democratic regimes are likely to have weakened state capacity because they can be constrained by collective action problems and the potentially invaluable time lost in consensus building amongst various political factions. I therefore anticipate a negative relationship between democratic regime type and state capacity. This variable in particular offers an opportunity to examine empirically the relationship between regime type and state capacity and if such a negative relationship exists between democratic regime type and state capacity. If so, an explanation can be offered for the global shift towards authoritarianism seen over the years. States may be investing in authoritarian regimes rather than in the necessary government institutions to strengthen state capacity in order to better manage economic globalization. These control variables were precisely chosen and offer the opportunity to gain a more complete understanding of factors influencing state capacity in developing states and its relevance to economic globalization.

The methodology for this analysis included the ordinary least squares method, with a regression model that can be replicated in the Dahlberg and Holmberg et. al (2019) dataset by the command "reg newgovef dr_eg ross_oil_value_2014 wbgi_cce al_ethnic chga_demo." The standard for accepting or rejecting the hypothesis is based on the P value being less than or greater than 0.05, with greater than indicating statistical insignificance while less than 0.05 indicate statistical significance regarding the empirical relationship.

Results and Analysis:

Table 1: Economic Globalization and Government Effectiveness (State Capacity),1946-2018

Economic Globalization	**0.007*** (0.0007)**

Oil Production Values (2014)	**6.73**** **(3.24)**
Ethnic Fractionalization	**-0.153***** **(0.04)**
Democracy	**0.074***** **(0.023)**
Rule of Law	**0.814***** **(0.015)**
Constant	**2.164** **(0.049)**
Observations	**1,247**
R-Squared	**0.81**

***** if p<0.01 ** if p<0.05 * if p<0.1** coefficients above, standard error in parentheses

The empirical results from this test were both unexpected and highly significant. The central explanatory variable, economic globalization, was found to have a positive relationship with government effectiveness that, with a p value of zero, is statistically significant. This means that the hypothesis of this work can be rejected as I predicted earlier in this work that economic globalization will reduce state capacity. The empirical findings support Weiss (2000), the lone dissenter among the scholarly arguments regarding the effect of economic globalization on state capacity. Weiss's (2000) argument that economic globalization can enhance state capacity because of the economic growth and higher living standards that can result from it now has significant empirical evidence supporting it. The results of this test regarding economic globalization’s impact on government effectiveness representing state capacity indicates that economic globalization for developing states is a significantly positive force that can promise prosperity and higher living standards. Increased exposure to trade, FDI, and integration

into the global economy through intergovernmental organizations (IGOs) that maximize developing states’ global influence, and regional integration to promote political and economic cooperation are all aspects of economic globalization that can conceivably increase state capacity for these developing states. This is because such policies have been shown to result in higher levels of economic development and higher living standards overtime that will increase state capacity as these states become wealthier, more influential, and through strengthened state capacity more stable in the long term. However, the importance of government policies and institutions within these developing states can still be considered essential in order to enable the state to manage economic globalization and its potential socio-economic strains effectively to benefit from the phenomenon which in itself is a force for strengthened state capacity.

The control variables were also statistically significant in their relationships with government effectiveness, indicating the importance of each in affecting state capacity. Surprisingly, oil production values in 2014 had a positive relationship with state capacity that with a p value of less than 0.05 is statistically significant. This indicates that higher levels of oil production can actually enhance state capacity. The explanation for this result contradicting my prediction regarding the relationship could be that the mere production of oil does not mean natural resource dependency, as in some diversified economies it could be another sector of it that contributes to growth. Nonetheless, the results of this empirical test support Kurtz and Brooks (2011) argument that natural resource production can increase economic prosperity and through that state capacity. The empirical results contradict ElGindi (2017) in his argument that

natural resource production weakens state capacity as it indicates natural resource dependency. The finding also contradicts my prediction in this work that oil production in 2014 would have a negative relationship with state capacity.

Ethnic fractionalization was found to have a negative relationship with state capacity that with a p value of zero is statistically significant. This indicates that higher levels of ethnic fractionalization will weaken state capacity and provides empirical support for Olzak (2010) in her argument that multi-ethnic states provide more opportunity for weaker states. This is because more opportunity for division, discrimination, and exclusion exists that if not addressed can result in domestic unrest and state failure in the case of civil war, weakening state capacity greatly in the process. Multi-ethnic states can also be vulnerable to horizontal inequalities that if not addressed will reinforce group cohesion and mobilization resulting in conflict and weakened state capacity. This is relevant to economic globalization because inequality is considered one of the primary adverse impacts of economic globalization. This, coupled with the empirical results of this work underscores the vulnerability of multi-ethnic developing states regarding state capacity and how it is impacted by economic globalization. The empirical results also affirm my prediction regarding ethnic fractionalization having a negative relationship to state capacity as I concurred with Olzak's (2010) argument.

The control variable regime type was found to have a positive relationship with state capacity that with a p value of zero is significant. These results indicate that higher levels of democracy is associated with increased state capacity. Although this empirically contradicts my prediction based on Cerny's (1999) argument that democracies have weaker state capacities and therefore a negative relationship would exist between democratic regime and state capacity, the results are understandable upon further analysis. Open political systems promote transparency, deter corruption, and promote the concept of the rule of law. Democratic regimes also create an environment where freedom of thought can encourage more opportunity for innovation, competition, and new ideas that spark development and through that state capacity. These factors contribute to attracting trade and FDI opportunities that strengthens the state. This is because in democratic regimes frustration with leaders can be expressed through the outlet of elections, not in civil unrest and revolution as can occur in authoritarian regimes where that outlet does not exist. The empirical result from regime type's relationship with state capacity should provide a warning to states drifting into authoritarianism. Investing in institutions that strengthen the state and democracy is a better long-term goal than adopting authoritarian regimes that on the surface appear stronger. The results of this test are therefore important as it provides empirical evidence of the merits between democracy and strengthened state capacity.

The control variable rule of law was found to have a positive relationship with state capacity that with a p value of zero is significant. This indicates the importance of the rule of law measured in control of corruption in the Dahlberg and Holmberg et. al (2019) dataset. The empirical evidence supports Silverstein (2003) in his argument that a rule of law is critical to deterring corruption, having an independent judiciary that enforces contracts, and mechanisms for holding leaders accountable when they abuse their office for personal gain. It also empirically

supports my prediction that a rule of law would have a positive relationship for state capacity. The information acquired from this empirical test highlights the importance of the rule of law for state capacity and how it can better attract and manage economic globalization. Also, how the lack of a rule of law can weaken state capacity as the state lacks the capacity to hold leaders accountable, deter corruption, and enforce contracts that creates a hazardous environment for trade and FDI, hallmarks of economic globalization.

In summary, the empirical results are highly significant yet surprising. It can now be inferred that economic globalization has a positive effect on enhancing state capacity overtime. This serves as evidence that economic globalization in itself is a positive phenomenon that must be managed diligently and effectively by developing states, not avoided outright. However, effective management of economic globalization is critical at the international and national level to ensure economic globalization is able to be a force for prosperity and not instability that can weaken state capacity in the developing world. The importance of natural resource production, if part of a diversified economy, can also serve to strengthen state capacity through economic growth and trade that this study provides empirical support for. The vulnerability of multi-ethnic states to weak state capacity and how it can be exacerbated by economic globalization is also highlighted in this study. Given Jinadu's (2010) assertion that a disproportionate amount of multi-ethnic states exist in the developing world as an enduring legacy of colonialism, multi-ethnic states should be aware of the unique problems they can face for state capacity in the face of economic globalization. The empirical evidence for regime type represents a

refreshing rebuttal to the argument that democracies are less able to manage economic globalization due to reduced state capacity. In fact, empirical evidence exists that democratic regimes can strengthen state capacity, indicating the shortcomings of democracies reverting to authoritarianism in the hopes they can better manage economic globalization. Empirical evidence also supports the importance of the rule of law in strengthening state capacity. The merit for developing states to invest in mechanisms for holding leaders accountable and an independent judiciary are crucial for state capacity and its ability to manage economic globalization as empirical data supports this.

The significance of the positive relationship between economic globalization and state capacity may have contradicted the hypothesis of this work. However, when analyzing control variables it can be understood how certain traits and institutions within states play a major role in state capacity and how it impacts the ability of the state to manage economic globalization effectively in order to avoid reduced state capacity. The results of this work also present policy implications for developing states to ensure economic globalization is a positive force able to be enjoyed by these states, not a potential source for instability and reduced state capacity.

Discussion and Conclusion:

According to the findings of this work, it is clear that economic globalization is in itself a positive force for economic growth and development that can translate into enhanced state capacity for developing states. The phenomenon, however, requires effective management at the international and national levels in order for its opportunities to be utilized and risks mitigated. The neoliberal model of globalization is in itself unsustainable as it prevents states from being proactive and engaged in mitigating the socio-economic stresses of economic globalization such as rising inequality, corruption, and labor displacement from automation. Economic globalization therefore should be based on pragmatic policy, not ideology, as it has been.This is important in order to tailor economic development policies for the distinct traits of each developing state in order to manage the phenomenon effectively and enjoy its benefits to enhance rather than weaken state capacity.

Regarding international institutions that play such an important role in economic globalization in the developing world, institutions such as the IMF and World Bank should focus on institution building as much as policy, as Williamson (2005) advocates. This will enable structural adjustment programs to have an enduring impact on state capacity as the IMF and World Bank work to export institutions such as a rule of law, civil service, and tax collecting institutions to fund development and public services. Such an emphasis on institution building will strengthen the state in the long-term and therefore its ability to manage the strains resulting from economic globalization. Through an emphasis on institution building at the domestic level and help from international institutions allied with states possessing those institutions, an enduring and more successful strategy for economic development can be achieved, enhancing state capacity in the developing world in the process.

Along with institution building to strengthen state capacity and better manage economic globalization, international institutions should focus less on ideology and more on pragmatic

policies designed to achieve modernization. A role for the state in the economy and appreciation for its ability to drive growth and development, anathema to neoliberals, should be recognized. As Evans (1997) mentions the role of government in the economy in the successful economic development of the East Asian states Taiwan, Singapore, Japan, South Korea, and later China. The government played a positive role in investing national resources into infrastructure and the economy, driving successful growth and development overtime. The government was also involved in protecting fragile domestic industries from foreign competition, liberalizing trade once those companies were able to compete globally and succeeded as a result. Restrictions on capital flows by the government also encouraged financial stability and combated overspeculation to generate an environment for sustainable economic growth in the long term (Evans, 1997). These economic policies directly contradicted neoliberalism as an ideology, but were successful because the state was proactively engaged in the economic globalization process and better able to mitigate its excesses. These success stories contrasted with the neoliberal model marketed by the IMF and World Bank, but the historical record supports Evans (1997) and indicates the need to concede a role for government in economic development to manage economic globalization and enhance state capacity. The East Asian states were also able to modernize at their own pace and on their own terms, not under rigid ideological pressure from the IMF and World Bank, as occurred in numerous African and Latin American countries during the 1980s and the 1990s. Recognizing the shortcomings of neoliberalism and how it strips the state of its capacity to manage economic globalization is important in order for international

institutions to develop structural adjustment programs that truly benefit developing states and enhance state capacity. It is through pragmatic economic policies designed to achieve modernity and higher living standards, rather than ideological orthodoxy, that international institutions can tailor economic development programs to meet the unique characteristics of individual states in order to be successful. Through this, economic globalization can be managed effectively and present unparalleled opportunities for developing states that will strengthen its capacity and therefore stability in the long term.

Efforts to increase representation in the global economic community for developing states is another important factor in ensuring economic globalization remains a positive force for state capacity. As Putzel (2005) mentions how international economic institutions have traditionally favored the developed world because they created them through Bretton Woods, economic assistance historically has been for the benefit of developed states rather than the sole benefit of developing ones. Jinadu (2010) argues the importance of developing states being represented in global economic institutions in order to strengthen their ability to resist attempts by the developed world to violate their economic sovereignty. This could enable developing states to influence global economic development programs that serve the interests of developing states rather than the developed world motivated by expanding access to markets for trade. Increased regional integration is a means to achieve this as it can maximize the regional influence of developing states as well as promote economic globalization between them that can drive growth and higher living standards (Jinadu, 2010). This would also serve to strengthen state capacity in

these states as they would be supporting each other both politically and economically, providing opportunities for the mutual adoption of institutions so critical for stronger state capacity. Therefore, increasing representation for the developing world in deciding global economic development is important for ensuring these programs truly benefit developing states, not the sole interests of the developed world.

Developing states also have a role to play at the national level in ensuring economic globalization does not reduce state capacity in order to enjoy its benefits. Governments must be active in the economic development process to invest public resources in infrastructure and the economy to stimulate job growth, trade, tax revenue, and efficient means of transportation. These economic policies coupled with a competent civil service to oversee transactions and regulate emerging markets will strengthen state capacity and better prepare it to manage economic globalization (Robinson, 2008). The establishment of stronger labor movements is also important as Rudra (2002) argues labor movements can pressure governments to be involved in ensuring adequate living standards and human security through social welfare policies. This will strengthen state capacity and its ability to mitigate the inequalities resulting from economic globalization that in the absence of a social welfare state can potentially weaken state capacity.

Although this can deter foreign investment and contradicts neoliberalism, this is a sensible long term strategy to ensuring a more sustainable economic globalization that guarantees socio-economic security for citizens. The governments of developing states must also make the necessary investments in human capital through education and healthcare to produce a skilled and healthy population ready to work in the most innovative industries (Kurtz and Brooks, 2011). This will encourage both human and economic development and raise living standards overtime that will strengthen state capacity and ensure economic globalization does not weaken it. The involvement of the government in the economic development and globalization process is therefore essential to ensure that the state has the capacity to manage economic globalization effectively to mitigate its risks and enjoy its benefits.

The establishment of a rule of law is also important for strengthening state capacity, as this work has found statistically significant empirical evidence that it strengthens it. An independent judiciary, with the ability to reaffirm constitutions, enforce contracts, and deter corruption by holding elites accountable is critical to strong state capacity and state stability. As the empirical evidence of this work supports Silverstein (2003) and his argument of the importance of the rule of law, it can be understood its importance to combating the increased opportunity for corruption that comes with economic globalization. The relationship between the rule of law and democratic regime, also empirically significant to state capacity, is another discovery from the empirical analysis of this work. More research from the social science community regarding the relationship between the rule of law and democratic regime in how both can strengthen state capacity should be investigated further. This is because authoritarian regimes can often be considered incompatible with a rule of law, as leaders are often not held accountable for their actions as they enjoy authoritarian powers. Further investigation into the empirical relationship of these two concepts and how it relates to state capacity can better prepare the social science

community to make policy recommendations. It also can offer empirical evidence of the value of democracy promotion for state building in developing states, and if a rule of law is a necessary institution to sustain it. Understanding this relationship will better equip policy makers with the necessary recommendations to ensure developing states do not experience reduced state capacity as a result of economic globalization and if its related to the existence of a rule of law or democratic regime type.

In conclusion, economic globalization is a major phenomenon with significant impacts on state capacity in the developing world. Economic globalization is a positive force that promises to lift millions out of poverty and drive modernization in developing states. However, it is a phenomenon that places socio-economic strains on populations and thus requires an active and institutionalized state to mitigate those strains. Under the neoliberal model, states have been rendered unable to proactively manage the stresses of economic globalization such as rising inequality, corruption, crime, and labor displacement that can weaken state capacity. Developing states must be allowed to embrace economic globalization in their own way and through pragmatic policies tailored to the distinct traits of each state. By doing this, developing states can retain their economic sovereignty and embrace economic globalization in a sustainable manner in order to enjoy increased prosperity and through that increased state capacity. In achieving this developing states can experience more successful economic development and strengthened state capacity that would promise a more prosperous, wealthy, and stable world that the developed and developing worlds alike have an interest in promoting and maintaining.

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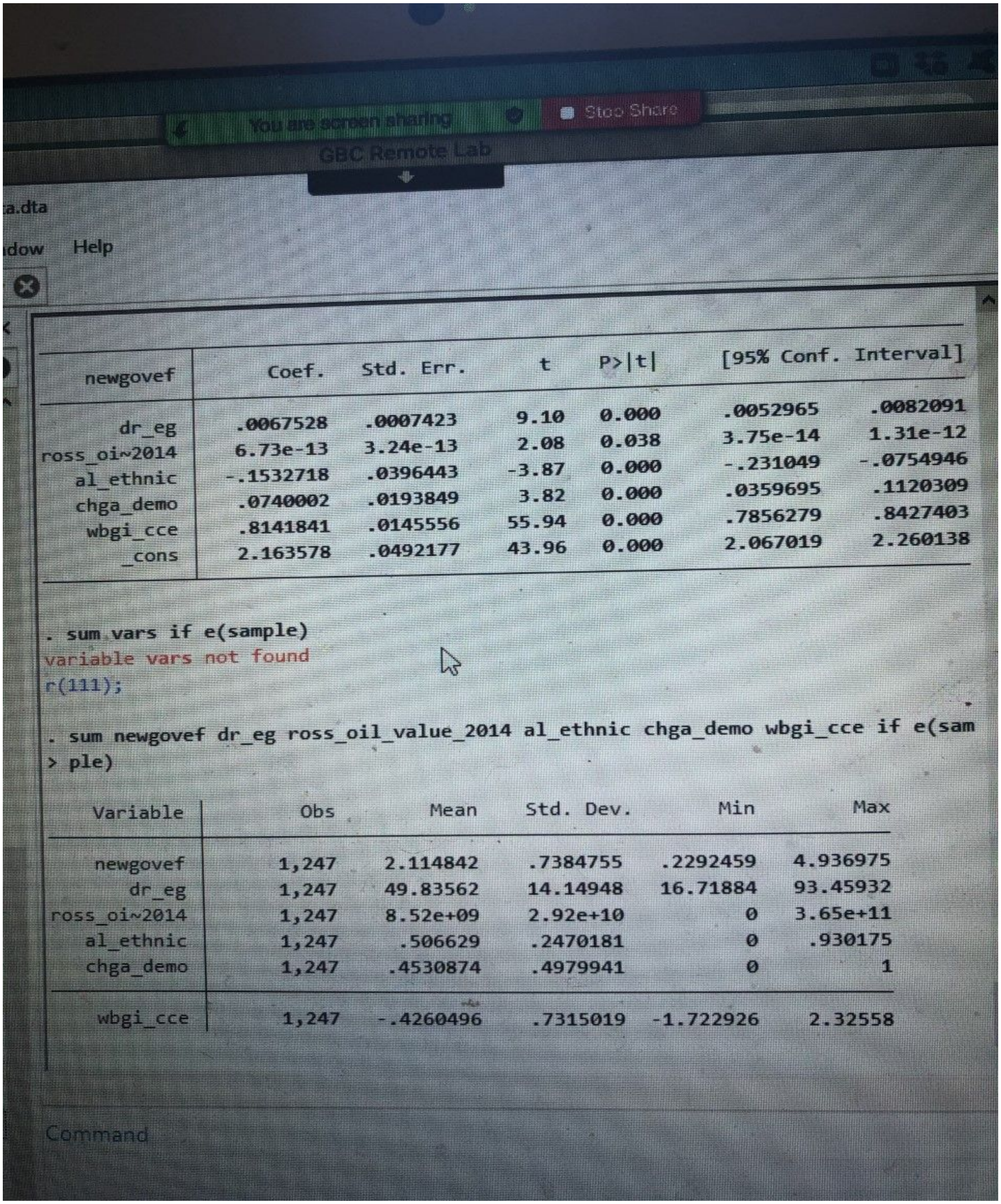
Appendix:

1. STATA Output With Summary Statistics:



newgovef	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
dr_eg	.0067528	.0007423	9.10	0.000	.0052965	.0082091
ross_oi~2014	6.73e-13	3.24e-13	2.08	0.038	3.75e-14	1.31e-12
al_ethnic	-.1532718	.0396443	-3.87	0.000	-.231049	-.0754946
chga_demo	.0740002	.0193849	3.82	0.000	.0359695	.1120309
wbgi_cce	.8141841	.0145556	55.94	0.000	.7856279	.8427403
_cons	2.163578	.0492177	43.96	0.000	2.067019	2.260138

```
. sum vars if e(sample)
variable vars not found
r(111);

. sum newgovef dr_eg ross_oil_value_2014 al_ethnic chga_demo wbgi_cce if e(sam
> ple)
```

Variable	Obs	Mean	Std. Dev.	Min	Max
newgovef	1,247	2.114842	.7384755	.2292459	4.936975
dr_eg	1,247	49.83562	14.14948	16.71884	93.45932
ross_oi~2014	1,247	8.52e+09	2.92e+10	0	3.65e+11
al_ethnic	1,247	.506629	.2470181	0	.930175
chga_demo	1,247	.4530874	.4979941	0	1
wbgi_cce	1,247	-.4260496	.7315019	-1.722926	2.32558

2. Table of Variables and Operationalization:

Variable	Operationalization	Source
Government Effectiveness (newgovef) (Dependent)	Continuous measure of quality of government in implementing policy, quality of civil service, and efficiency in distributing goods and services. Measured from zero to five with higher numbers indicating more government effectiveness while lower numbers indicating less government effectiveness.	Dahlberg and Holmberg et. al (2019) dataset where "newgovef" generated from variable government effectiveness (wbgi_gee) to include sample reflective of developing states.
Economic Globalization (dr_eg) (Central Explanatory Variable)	Continuous measure of integration into the world economy through trade and foreign investment. Measured from one to one-hundred with higher numbers indicating more economic globalization while lower numbers indicating less.	Dahlberg and Holmberg et. al (2019).
Oil Production Values 2014 (ross_oil_value_2014) (Control)	Measure of oil production in dollars from the year 2014.	Ross, Michael; Mahdavi, Paasha, 2015, "Oil and Gas Data, 1932-2014", https://doi.org/10.7910/DVN/ZTPW0Y, Harvard Dataverse, V2, UNF:6:xdrpUdF2kYUJYCgVfgMGcQ== [fileUNF] from Dahlberg and Holmberg et. al (2019) dataset.
Rule of Law (wbgi_cce) (Control) Rule of Law cont.	Measure of control over corruption and instances of leaders using public office for private gain.	World Wide Governance Indicators http://info.worldbank.org/governance/wgi/#home Part of Dahlberg and Holmberg et. al (2019) dataset

Ethnic Fractionalization (al_ethnic) (Control)	Measurement of levels of diversity amongst ethnic groups regarding language, culture, and race within states.	Dahlberg and Holmberg et. al (2019) dataset.

Regime Type (chga_demo) (Control)	Dichotomous, measures regime type in a way that distinguishes between democratic and non-democratic regimes. Measured from zero to one with lower numbers indicating less democracy while higher numbers indicate more democracy.	Dahlberg and Holmberg et. al (2019)

3. Summary Statistics Table:

Variable	Number of Observations	Mean	Standard Deviation	Minimum	Maximum
Government Effectiveness (State Capacity)	1,247	2.114842	0.7384755	0.2292459	4.936975
Economic Globalization	1,247	49.83562	14.14948	16.71884	93.45932
Oil Production Values 2014	1,247	8.52e+09	2.92e+10	0	3.65e+11
Ethnic Fractionalizat -ion	1,247	0.506629	0.2470181	0	0.930175
Rule of Law	1,247	-0.4260496	.7315019	-1.722926	2.32558
Regime Type	1,247	0.4530874	0.4979941	0	1