

**DOA:
DIPLOMACY ON THE ASCENDANT
IN THE AGE OF DISINTERMEDIATION**

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PREFACE

This paper started out as an exploration of the challenges to the diplomatic profession in the new century. It became clear early on, however, that these challenges reflected much wider phenomena and that any reasonable attempt to address them needed to explore the general environment.

That, then is the goal: to explore the prospects for state diplomacy in the broader context of institutional adaptation. The paper makes the point that all institutions which act as intermediaries between people and power (whether that power be money, or coercive force, or the authority to govern civic behaviour), have been subject to similar challenges to their legitimacy and mandate. All have been “disintermediated”; they have all, one way or another, been pushed out of the way by constituents who have felt over constrained by excessive paternalism, been empowered by information technology, and stirred to act by the apparent lack of accountability in the institutions that they entrusted with their affairs.

Part I of the paper is an introduction to the theme of “disintermediation.” It explores the experience of the financial services sector, where the term was first coined, and where the phenomenon has been the most transparent.

Part II examines the state’s experience with disintermediation and its impact on how it is able to meet society’s expectations in the new globalized environment. This question is urgent. Now in middle age, the same post-war generation that wanted to push the state out of its life thirty years ago, demands its vigorous re-engagement to protect its security.

It is entirely possible that the state will react dysfunctionally to these demands. It could neglect some essential obligations irretrievably, by misjudging Society’s priorities. It could over-react to some demands, most particularly for physical security, and create a state more intrusive, remote and unaccountable than the one that prompted disintermediation in the first place. It is also possible that some parts of the state apparatus could have atrophied beyond the point where they can make an adequate contribution to meeting Society’s new demands. Some argue that Diplomacy might fall into this category, just at the moment that a global approach to modern Societies’ challenges becomes urgently necessary.

The paper also explores how the state should approach “re- intermediation.” It proposes the formulation of a new “contract” between state and society to meet Society’s real challenges at the beginning of this new century. The paper makes the point that too much has changed in the last thirty years for the state to try to reclaim its earlier prerogatives in that new Social Contract. The state will have to assert a new sense of purpose to provide it with renewed legitimacy in the globalized environment. It will also need to find ways to share space with the new forces that its own disintermediation has empowered in the past decades. Partnership will be a key defining character of successful governance in the complex period ahead.

Part III treats the conduct of diplomacy as one specific area of activity where disintermediation of the state has had a direct impact. Disintermediation makes for rapid evolution in the practice of Diplomacy as:

- ?? technology transforms interaction among actors previously separated by physical space and lack of familiarity;
- ?? the erosion of the boundary between domestic and international issues accelerates; and
- ?? the notion of “inter-national” relations comes to encompass an ever more complicated set of relations among national, multilateral, sub-national, regional, social, economic and other actors.

PART I

DISINTERMEDIATION IN THE RAW

Adaptation is the key to survival in the Darwinian world of the economy. The example of corporate adaptation sketched out below, of Canadian banks facing up to the challenge of disintermediation, is intended to provide a context for understanding a similar but far more complex challenge to the postindustrial state.

CANADIAN BANKING: TRANSFORMATION FOR SURVIVAL

WHAT ARE (CANADIAN) BANKS?

Canada's "friendly giants", the chartered banks, have dominated our economic landscape and the lives of our communities. They are an oligopoly that has supplied financial services to Canadians since the country's foundation. Their roots are intertwined with those of the country itself. In a grand bargain struck early in the last century, they have enjoyed a privileged place in Canadian life, entrusted with the financial affairs of virtually the whole population and of the Canadian economy. The banks were, in short, both public institutions and big businesses.

At a certain point in the last twenty years, however, the banks' dual personality began to unravel. Nontraditional suppliers of financial services challenged the banks' oligopoly. As their franchise came under pressure, the banks were forced to prioritize the interests of the key constituencies they had historically kept in balance. They had to decide which of the following they had to satisfy, and in what measure, in order to survive: their clients, their shareholders, or Canadian society.

THE PROBLEM

Rising pressure on the banks' franchise came from several directions at once starting in the 1980s. These pressures were all, in one way or the other, spawned by revolutionary advances in technology and the changes in markets that these had created.

Competition for the banks' corporate business came from entities (like securities houses) that were less stringently regulated because they did not occupy so dominant a place in the economy. These could supply capital cheaper, faster, with fewer strings attached, connect clients directly into capital markets and offer other innovative value-added financial services on a fee basis. Most important, the clients did not need to, indeed they were encouraged not to, commit to a long-term relationship with these new financial intermediaries. Corporations had chafed inside the traditional banking relationships through which the banks had exercised what often seemed to be oversight over business decisions. Now they were free, and they liked it that way.

The securities houses had always served a role (floating bond and equity issues) which had been an important but modest part of the business mix; now, however, they were on steroids. Information technology had expanded and energized financial markets, to which it also allowed them to give their clients direct access.

As this process advanced, the banks' ancillary corporate businesses, including treasury, trust management, payroll management, trade finance, and custody, all part of the relationship "package", also started to come under pressure. The competition in these areas came from entities with global networks, largely U.S. investment houses, and increasingly, from large banks based in the U.S. where the liberalized regulatory environment had allowed them to diversify into businesses from which the Canadian banks were barred. They had the unbeatable competitive advantage of global reach, deep capital, fewer firewalls, and technology designed to serve global markets.

Disintermediation also affected the supply side of the capital markets. Institutional investors were increasingly loath to rely on conventional intermediaries when the benefits of a closer, often direct involvement in markets became clear to them.

Things got even more serious when disintermediation started to affect the banks' deposit base. Retail clients, too, were chafing at limited services, high cost, and what many regarded as "judgmental" relationships with bankers. Their deposits were tempted away by the trust companies, electronic banks and other service providers.

By the 1990s, the banks were sailing into the Perfect Storm, hit by a recessionary tidal wave, rocked by globalization and pulled under by the technological undertow. The core of their value-added had been the prudence they brought to their clients finances; that was now increasingly seen as both redundant and restrictive by clients who had direct access to information and markets. The banks, therefore, had to reinvent comparative advantage in order to survive.

**CRISIS CONCENTRATES THE MIND:
"WE ARE, AFTER ALL, ONLY A BUSINESS, AND WANT TO BE
TREATED THAT WAY"**

The banks had seen these dangers building over time, but being established, hierarchical and risk-averse institutions protected (and constrained) by the State, they had responded piecemeal, defensively, hoping for the best. Now they faced a crisis of survival that obliged them to reassess their identity.

The banks concluded that they had to strip to the basics. They had to be no more than a business, without the complication of social role and responsibility. A strategy based on

maintaining relationships would load them with shifting ballast that could pull them down. Large enough, diverse enough, and free enough, they could adapt and maintain the flexibility to ride through any storm.

Large, diversified, and free is precisely what they set out to become.

GROW BY CORNERING THE CANADIAN MARKET

The banks' first strategic decision was that they had to defend their Canadian base, even as they moved beyond it. They had to remain the principal financial intermediaries in the Canadian market, at whatever the cost, in order to protect their deposit base and core of solid business. Doing this was relatively simple, because their pockets were deep. The government accepted that the banks needed to broaden their scope of activity, though not to the degree that U.S. bank were allowed to do. The banks therefore proceeded to buy up domestic competition. Virtually all the major securities firms in Canada now belong to the Canadian banks, as do the trust companies in the retail market. In one swoop, the banks recouped the business that had been created by the securities houses, blending it with their own and providing a much richer mix of services to their clients.

FROM COMMODITY INTERMEDIATION TO MASS CUSTOMIZATION

The diversification of services was as important a part of their strategy as was the acquisition of scale. Clients were not content to forego the most sophisticated level of money and risk management, treasury, advisory, custodial, trust, and other services simply because the banks were not offering them.

The banks still had to match the level, cost and convenience offered by other providers in order to capitalize on their size. In fact, they had to turn the old logic of size on its head. They could no longer claim business by dint of having a national franchise or of simply "being there" through branch presence across the country. All of a sudden, the balance of power between client and provider shifted in favour of the former. Rather than being obliged to accept "commodity intermediation"—i.e. whatever services the oligopoly chose to offer at whatever price, howsoever delivered—clients were able to extract customized service focused on their individual needs. All of a sudden too, the banks were able to provide it. Advances in technology made it possible to build information management infrastructure that provided sophisticated product on a highly differentiated basis to an unlimited number of clients.

This too became part of the banks survival strategy.

REDEFINING BORDERS: FROM SEA TO SEA, BUT ALSO TO THE GULF OF MEXICO

The banks' compact with Canadian society had been that in exchange for protection from outside competition, they would put the interests of the Canadian consumer and the Canadian economy ahead of any international ambition. That bargain came under pressure when four things became clear to the banks:

- ?? There was little prospect of growth in Canada without some form of cannibalism (or more politely put, mergers) among them;
- ?? The Canadian economy itself was escaping the country's borders and that as NAFTA took hold, their Canadian clients would increasingly look for banking services on a North American basis and
- ?? The deregulated banking environment in the United States provided great opportunities; and
- ?? Their Canadian franchise would not remain protected from foreign incursion for much longer, and if they did not move beyond their small domestic market, they would be overwhelmed in it.

From here on, they were to be North American banks, though they also had aspirations to be global players. They started a series of U.S. acquisitions, building as much as they could on their areas of comparative advantage as managers of major retail and technology networks. Their only regret in adopting a North American identity was that they had not done it sooner and that regulations continued to hold them back.

THE URGE TO MERGE, INTERRUPTED

The banks consequently toned down their insistence on blanket regulatory protection and became champions of deregulation. They argued that artificial protection was futile in the face of global change and that to survive, they would have to become world-scale institutions themselves. What they felt they really needed was the freedom to merge, to become big enough to take on foreign competition on their own turf and to expand meaningfully abroad. Indeed consolidation was the only alternative to being acquired by foreign players.

But here the state balked. The conflict between the government and the banks went to the fundamentals. The banks believe that freedom from "artificial" political restraint is essential if they are to evolve and thrive (and so, contribute to the common good). The Government, on the other hand, sees it as its duty to restrain the banks' ambitions: to maintain competition, to keep the banks from becoming so big and taking on so global a role that they might be tempted to abandon national responsibility. Who is right? Probably both are. The two views may never be entirely reconciled because the relative interests will continue to evolve. The relationship will continue to be one of managed tension.

THE BOTTOM LINE: THE BANKS, TRANSFORMED, SURVIVE

The banks could only serve their clients' interests (and those of society at large) if they survived. To survive, the banks reinvented themselves in line with the times, and the times called for a diversification of services and investment in technology, but also for a separation of business and social roles. Their clients accepted a relationship on this basis, because it responded to their own desire to change their relationship with the banks. The banks now deliver services that the clients demand in a way that the client demand. The clients had reason to feel that at last, they were in control of the relationship. There would now be fewer bonds of loyalty between them and their financial service providers; the new relationships would be more promiscuous, based on choice, price and service. The price that society paid for the banks' survival was that they would no longer be the major "public" institutions with which Canadians could uniquely identify, or on which they could implicitly rely to serve public policy goals. This seemed to trouble society very little, though the state was more concerned.

The banks' evolution is, of course, not yet complete. It never will be. Changes in technology, in the nature of the international economy, in competition, in social values will all continue to oblige them to keep adapting.

CONCLUSION

The banks' experience provides a base for understanding the state's situation because banks and state experienced disintermediation on a similar pattern: first, their constituents grew indifferent, hostile and disillusioned; then new technologically empowered competitors arose to offer alternatives which were eagerly accepted, pushing both state and banks aside.

But three differences are also important:

- ?? While the state can reform its practices and structure, it cannot, like the banks, abandon its "public purpose" as part of its survival strategy.
- ?? The state is still reacting incrementally to disintermediation. It is being reshaped incrementally; it has not yet "reinvented" itself as the banks have.
- ?? The state, unlike the banks, cannot dispose of all of its competitors; it has to find ways to live and work with them.

PART II

DISINTERMEDIATION TRANSFORMS THE STATE¹

WHAT IS THE STATE? IT IS CERTAINLY MORE THAN A BANK

The following discussion revolves around the proposition that the state is not a bank, but that it came to be mistaken for something very like one. It argues that at the root of the state's disintermediation in the last decades was its own acceptance of the notion that it was indeed like any other fee for service entity, perhaps no more than society's contractor, essentially for the delivery of public goods.

The state is, of course, infinitely "more" than a bank. It is the expression of society's values, the mediator of its internal conflicts and its defender against external coercion. Its relationship with its constituencies is also far more complex than that of the banks with theirs. The state's clients and shareholders are the same people, in the "Janus" guise of citizen and taxpayer. The state, unlike a bank, is obliged to satisfy the interests of both in even measure, even when these interests are contradictory.

The state's capital, furthermore, is different from that of the banks. The latter go bankrupt if they lose their reserves; the state fails when it loses the loyalty of its constituents and hence its authority. Failure is, furthermore, the result of disappointing expectations, which is possible on many fronts. The state can do too much or too little; it can do the wrong things right, and the right ones wrong; it can misunderstand what is expected of it. Its failure is, therefore more difficult to anticipate. It is also more complicated to reverse than in the case of financial institutions.

QUIS CUSTODIET IPSOS CUSTODES?

The state, unlike the banks, has no external warning system of regulators, auditors and financial analysts nor the safety net provided by markets and regulation. There is no superior authority that can, as a matter of course, step in and make up for state failure. The state has to provide its own insurance.

The most important (and complex) part of its insurance policy is the political process, which acts as its early warning system, stock market, board of directors and regulator, all at once. If we can speak of the modern state as an organism, the political process constitutes its sensory system. There is no other transmitter and processor for signals of what is expected of it, of its success or failure. The state therefore has no "biological" option than to be responsive to the

¹ For the purposes of this paper, what is under discussion is the modern, industrial, democratic State, primarily in the North American context

political process, whatever it directs. That is why it is important to note that the disintermediation of the state, its demoralization and supplantation, was no accident; it came through the political process.

PHASE I—DISILLUSIONMENT WITH THE WELFARE STATE

HANDBAGGING THE NANNY STATE AND UNMANNING BIG BROTHER

The modern welfare state grew up, flourished and declined together with the Cold War.² It was conceived by societies whose dominant generation had lived through the Depression and the Second World War and was accustomed to thinking of social issues in terms of collective approaches. That generation accepted the view that the state was the best instrument to assure external defense, to build national infrastructure, stimulate and guide economic activity, and provide for an equitable distribution of wealth at home and in the world. It was Society's shield against the Soviet threat, military and political. A broad consensus on these roles gave the state *carte blanche* well into the 1960s. Stability and expanding programs for social change characterized the postwar period in North America, e.g., the War on Poverty and the Civil Rights revolution in the United States; Medicare and equalization in Canada. In Western Europe, it was a period of reconstruction, Soviet threat and post colonial adjustment which made the state indispensable. And then somewhere in the sixties, something began to change both here and in Europe.

1968 saw the beginning of (a yet inchoate) revolt against state power. The sound of axes, cutting the welfare state down to size, first echoed widely in the 1970s. In the next decades, the process accelerated to "clear cutting."

There were many reasons for this change in dynamic.

Fatigue with the paralyzing threat of nuclear annihilation was one. The futility of Vietnam and apparently endless other proxy wars in the Third World was another. These undermined confidence in both the rightness of the vision for the world defined by the state, and in its capacity to defend it

Fiscal crises brought the state's capacity to control the public sector into question. A period of economic decline, fiscal and labour instability helped stimulate the movement for European construction. European "Community" was an attractive new focus of citizen loyalty and a

² Its lifespan was also coterminous with a period when massive technology defined both economic and social organization.

means to move power upward out of the hands of apparently corrupt and incompetent national governments.

Watergate undermined the notion of a political system based in public virtue. The erosion of the taboo that had conferred a “sacred” character on the state led to the collapse of the imperial Presidency. The investigation watched by millions demonstrated that it was both possible and necessary to police the state.

The flagging effectiveness of large-scale social programmes (lacking adequate financing and often too prone to fashions in social engineering) and of economic interventionism began to mock the state’s claims that its leadership was indispensable to building better societies and stronger economies. Successful social programmes, like Medicare in Canada, on the other hand, became icons for national identity, embedded and unalterable.

Concern about the state’s capacity to misuse information technology to invade the private lives of citizens and shield its own (in some cases corrupt) activities, brought calls for transparency and accountability. Those calls were answered with different degrees of enthusiasm in Canada and the United States.

By the 1970s, globalization was also making itself felt (if without the name) in world affairs, as multinational companies spread their activities and influence. The state seemed unable to contain their power, driving some people to look for alternative means to protect society from the depredations of “international capitalism.” When, however, the state did try measures to constrain global flows, e.g. through price and wage controls, or measures like FIRA and the NEP in Canada, the action soon proved dysfunctional, further lowering confidence in governments’ wisdom and efficacy. More generally, the end of the Bretton Woods system, oil shocks, stagflation in OECD economies led to questions about states’ collective capacity to maintain economic stability.

Technology—television, cassette recorders, automobiles, and gradually fax machines, photocopiers—was also becoming available for the first time to consumers, allowing both freer access to information and the means to organize dissent outside mass structures.³

In other words, the state’s claim on the loyalty of society was eroding, a process that accelerated over the course of the next decades. Its constituents wanted it diminished, to become more Servant, less Master.

Perhaps the most important factor energizing this phase in the disintermediation of the state was demographics. The baby boom generation hit its mid twenties and started to take its place at

³ With most dramatic success in States that sought to control information, e.g., in Iran and later in the Soviet system.

the center of national life in the 1970s. The most militant members of that generation vented their frustrations in 1968. They were the cutting edge of disappointment and restlessness, but the rest of their generation was not necessarily much happier with the state, its intrusiveness, propensity for social engineering, apparent privilege, military-inspired discipline and remote paternalism. They, however, preferred to express their discontent through the political process.⁴

The arguments of classical liberal economists and libertarian social thinkers gave this anti-state activism an ideological basis and a political agenda. At the same time, the state was, ironically, also being assaulted from the opposite direction, by the growing movement to entrench rights and entitlements. While this movement was intended to make the state a more powerful defender of victimized minorities, it served, over time, to diminish its real power by sequestering resources and “constitutionalising” broad swatches of policy.

Prime Minister Trudeau’s promise to get the state “out of the bedrooms of the Nation” was an indication of the political appeal in Canada of hauling back the intrusive State, though not necessarily of constraining its broad involvement in the economy. Jimmy Carter, with the promise he held out of a more transparent, morally centered, accountable governance, was an expression of the revolt (or perhaps more accurately a revulsion) against the post-Watergate American state. The failure to deliver on these promises of “perestroika,” and the growing indebtedness of the public sector, accelerated disillusionment with the welfare state and stimulated even more uncompromising approaches.

Political figures of the time proved to be transitional. Elections from the 1980s on, were won on the platform that the state had become both stifling and intrusive, a self-serving nuisance, and had to be downsized.

Downsize, dismantle, most states did, moving sovereignty around, constraining their own power through legislation, cutting debt, introducing private sector efficiencies, intent on demonstrating value to jaded constituents. The state’s reaction only served to validate the views of those who sought to shrink it, and encouraged them to demand that the process be accelerated. At the same time it served to further disillusion those who looked to the state for social change: they redoubled their efforts to stop the erosion of the welfare state, by entrenching rights and entitlements for ever broader constituencies.

The welfare state had been geared to “doing more with more.” It was now increasingly whipsawed by conflicting calls to do either less or more, but as fiscal deficits ballooned, to do it with ever less and less. At the same time, the political discourse allowed less room for discussion of citizen loyalty and public duty. The challenge to “Ask not what your country can do for you, but what you can do for your country” came to have a nostalgic, anachronistic feel. The state became increasingly “objectified” and distant from citizens, with interest groups able to

⁴ That same generation, thirty years on, in middle age and concerned about its security, is now calling for a more active and Interventionist State, but still remains mistrustful of state power.

mobilize opinion through a growing diversity of media, increasingly asserting the right to demand that the state satisfy their particular claims. Citizenship increasingly became a commodity to be parsed and bought with no concomitant sense of public obligation required.

The bond of mutual loyalty between state and citizen seemed somehow to have become less relevant, just as it had with banks, but while the banks' customers had voted with their feet when unhappy, citizens voted increasingly against the state by not doing so at all. Voter participation declined gradually at all levels of government, further delegitimizing representative democracy.

Popular language reflected a belittling of the state. "Big government" became entrenched in the political lexicon of clichés; the term "bureaucrat" increasingly displaced "civil servant", and "red tape" substituted for "regulation" as esteem for the state declined. At the same time, respect for the "market" and confidence in the wisdom of individual experience came to dominate in discussions of public policy.

PHASE II: SUPPLANTATION

THE STATE'S CONTRACT IS RENEWED, BUT UNDER NEW TERMS

By the 1980s, new leaders (Reagan, Thatcher, and Mulroney) were elected to articulate a new relationship with the citizen/taxpayer. The contract they developed gave the state a much-reduced role: it would be a less direct participant in the economy and a less intrusive presence in the lives of citizens. It would liberate, rather than constrain, economic actors in creating wealth. The state would be a servant, not a master of society. It would accept a modest place among society's institutions, doing only what nobody else could.⁵

New laws also curbed the state's capacity to gather information and to keep its own actions from public scrutiny. Power was devolved where possible to ever-lower levels of government, sometimes without the funding to go with it. Infrastructure like airports and highways were now often consigned to private hands or to public/private partnerships. Governments delegated the licensing of vehicles, the management of prisons, the provision of airport security, the testing of water supplies and a mass of other services to the private sector. Regulation of economic activity, including of financial markets became increasingly accommodative, the assumption being that markets function best when they are the most self-regulating.

Despite apparently radical reductions in state activity, the proportion of GDP absorbed by the public sector rose and then declined, at best, unevenly, while the overhang of debt and the

⁵ Though to different degrees in the United States, Canada and other advanced democracies, in keeping with differences in political culture.

entrenched entitlements of influential sectors continued to hinder efforts to readjust priorities. Rather, the state continued to cut back across the board often without meaningfully refocusing its own expenditures. It was, in fact, incapable of defining what its focus should be because there was no broad political consensus on anything other than that the state was too expensive. As a result, governments cut back their capacity for policy formulation and regulation and for the maintenance of infrastructure, while often appearing unable to address more obvious targets, like subsidies to special interests, with equal vigour. The inevitable effect was to reduce confidence further.

This dynamic accelerated in the 1990s. The end of the Soviet Union and with it, the fear of war, seemed to make the state's last sacred role irrelevant. There was no external threat to protect against, and the wisdom of markets seemed to have buoyed the economy better than the state ever had. Dramatic advances in technology expanded the information available to citizens and the means to organize, now on a global basis. The need for representative democracy and its backrooms came to be seen as anachronistic and reprehensible. Economic growth and unprecedented prosperity validated the notion that reducing the role of the state was right in and of itself. Increasingly the discourse turned to how the state could be more transparent, accountable and efficient (meaning cheaper). In a bubble period of peace and prosperity, the state's capacity to deliver its core functions was somehow, and mistakenly, taken for granted, while in fact, it kept eroding. The opportunity to define a new role for states and a new structure to manage the post-Cold War world was lost in this period of complacent instability.

THIRTY YEARS ON: THE INDUSTRIAL WELFARE STATE THEN; THE POST-INDUSTRIAL "PARTNER STATE" NOW

The demand that the state prove its legitimacy by becoming ever more modest seemed right to a society frustrated by "big Government" thirty years ago. Has its effect been to make the state less or more fit to deliver what society expects of it today? Can it provide the security that society demands, as globalization spawns uncontrollable and menacing forces of which the most virulent example is provided by international terrorism?

Clearly the state is too much changed to assert the role that it could at its apogee. It might in any event prove to be incapable of fulfilling the expectations of an aging and insecure society. It is also possible however that the state might be in better shape than that: three decades of disintermediation might, at least in some respects, have left it stronger, leaner, more responsive than it would have been, had its failures been allowed to fester without challenge.

- ?? It certainly forced the state to become more focussed, economical and adaptable.
- ?? It has undoubtedly led to much innovation in public administration.
- ?? It has allowed the growth of new forces that supplement the state. It has served to make society less the state's client and more its master.

?? It has certainly responded to the public's desire to bring the state down a peg and reduced expectations of what it could deliver more manageable.

The state might, in short, be better prepared for the new century than might seem the case. That being said, the state is much reduced, the challenges are enormous, and the pressure to respond to them is being articulated in an atmosphere of *multiple* crisis. The dangers in such circumstances are twofold and contradictory:

?? First, that the state might simply not be effective enough to cope with new challenges.

?? Second, that it will over-react and seek excessive and arbitrary power in an effort to reassert a role in an increasingly complex and challenging environment.

The only way that these two outcomes can be avoided is if the state and society negotiate a new contract to replace that which was struck over twenty years ago.

A NEW CONTRACT TO REINTERMEDIATE THE STATE

The next great challenge to the political system will be to define that new contract. It will be as transformative as that struck by the generation of the 1980s. What will that new contract stress? What central role will it assign to the state and what authority will it be given?

The state's last contract was about making it subservient and unintrusive. The agenda now seems set to shift powerfully to empowering the state to provide Security on many fronts. September 11 was only the most dramatic catalyst for drafting this new contract. An aging population had plenty to demand of the state in terms of security before September 11, regarding among other things:

- ?? borderless threats to the physical environment;
- ?? fragility of health care systems;
- ?? dependence on global financial markets for retirement savings;
- ?? growing and often involuntary migration worldwide;
- ?? transnational crime and pandemics;
- ?? imbalances in world energy supplies;
- ?? the rising impact of virtual space on everyday life;
- ?? the double edged promise of biological sciences;
- ?? the spread of weapons of mass destruction; and
- ?? the rise of armed fundamentalist militancy.

REBINDING STATE AND SOCIETY

In order to be sustainable, any new contract has to be based on a vision that is more modest than that which animated the welfare state. It needs to satisfy the dominant generation's

insistence on both security and freedom. Most particularly, a contract now needs to make clear how the state can continue to be valuable in a world characterized by porous borders and global flows. Any new definition of purpose for the state must therefore start from an acceptance that globalization is a fact, not a theory, and must have at its basis the notion that the state is only useful to society in the measure that it helps society succeed in the globalized environment.

There will undoubtedly continue to be debates about how to define success in this context. Some will advocate protection from global forces while others will urge a more aggressive openness to global flows. Whatever the outcome of the debate, it is hard to see how the state can avoid moving on from the notion that modern society can hide behind borders. Borders are increasingly permeable and hence increasingly ineffective lines for demarking authority. Political boundaries coincide less and less with economic or social space, as regional integration proceeds and economic actors assert themselves on a global basis. In and of themselves, borders give the illusion of sovereignty without its substance.

The only way to guarantee sovereignty is to occupy territory in such a way that no external forces can impose themselves within it. Filling space with good governance, economic opportunity and comity rather than delimiting it with artificial borders will be the major contribution of the state. It will have to develop a mix of approaches to doing so. States will have to act not just within national jurisdictions, but increasingly, on a collective basis to provide global governance. The roles it will need to fulfill are likely to be complex:

- ?? Providing an effective framework of law and regulation;
- ?? Assuring security against threats from within or outside borders;
- ?? Ensuring the provision of social and physical infrastructure;
- ?? Building an environment of openness and solidarity in society;
- ?? Sustaining the innovation, investment and self confidence necessary for social and economic success; and
- ?? Providing an open, stable, cooperative and secure international environment for virtuous global flows.

The state today cannot hope to do all this alone. It will need well functioning partnerships that can complement its efforts. The most likely of these are likely to be with precisely the same local and global forces, such as economic actors, multilateral institutions and non governmental organizations, for which the state had made room as it withdrew in the last decades.

The next section examines how some of these forces rose in importance as the state withdrew, how the state has adjusted to their presence and how a positive balance might be struck between them.

STATE AND ECONOMY

CORPORATIONS AS MAKERS OF PUBLIC POLICY

Corporations, often with global reach and the capacity to create economic activity in line with their own criteria, can increasingly treat public policy as a variable, rather than as an absolute constraint. Governments, for their part, have come to see themselves ever less as masters, and ever more as guardians of the economy. They see their function as being to create a positive environment for the economy, not the creation of wealth itself as the state increasingly accepted the notion that regulation of the economy was best when it was the most accommodating. Critics of globalization tend to see only the dark side of this adjustment. To them, it is an abrogation of state responsibility. But the situation is more complicated than that.

Global corporations based in postindustrial democracies generally see good governance as a necessary precondition for good business: financial markets congregate where the law of contract is the most vibrant; investors, especially those who rely on the protection of intellectual property, increasingly seek effective legal systems, transparent decision making and predictable behaviour in the public sector. Global corporations also have to respond to the wishes of their shareholders and national publics in the way their behaviour affect the global commons. It is far from clear, in other words, that there is a necessary conflict between the interests of the democratic state and the economy in a globalized environment.

That being said, Enron and other failures demonstrate the need for effective controls to prevent corporate abuse of public trust. Though these cases make it harder to argue the virtues of self regulation, the fact remains that transparency and probity are in the interests of business. They affect its capacity to raise capital, to practice innovation, to be regulated on the basis of implicit trust rather than hostility. It is more than possible, therefore, that the private sector will increasingly accept the responsibility to provide the leadership in improving corporate as well as public governance. Given the evolving balance of power between them, regulatory and policy reform will, in any case, have to continue to rely on discourse between governments and economic actors (among others). The challenge to all will be to find the balance of responsibility that is the most sustainable.

GOVERNING THE ETHER; REGULATING NANOWORLD

Corporations already substitute for the state as regulators in the new economy and do so perhaps more effectively in the short term than if the state acted alone. The Internet provides the most dramatic example. It is regulated on a worldwide basis (if “regulation” is the word for the emerging framework) by an amalgam of private interests and technologists. The role of commercial entities, such as the ISPs, OS providers (most particularly Microsoft), carriers and hybrid organizations like ICANN in managing critical global infrastructure has become a source of public concern, but it is precisely the global character of the Internet that has thus far made state regulation unworkable.

The Net is a medium that has no geographic parameters. It has no physical manifestation and few controllable assets. It is a liberating political force and a powerful economic medium. It belongs to no one and everyone; it is the ultimate global commons. States have not yet understood how to regulate its behaviour collectively. (National regulation of the Net would be an oxymoron, even if it were technically possible.) They have to face up to their responsibility for doing so, but in the meantime the demand for “rules of the road” has been met by business, science and the not-for-profit sector.

The Internet example, i.e., of a technological field evolving too fast for state regulation, might give us a glimpse of the kind of regulatory burden-sharing that will become more common in a virtual “techno world”.

Is it also the model for regulation in the world of life sciences, where advances in cloning, bioengineering and genetic manipulation have opened up not just new technological possibilities, but also a new branch of ethics? How will the state apply society’s judgment to these technologies? Will it be able to impose rules, or is it condemned to accept and adapt to the innovations that technologists advance? The political system and the courts are as yet poorly positioned to provide the necessary authority, but there is no question that society will demand they do so as the technology races ahead. Nor is there any question that the state will only be able to respond if it shares the responsibility with those who know the issues well enough to respond rapidly with workable rules: the initiates themselves.

DELIVERY OF PUBLIC GOODS:

The private sector increasingly subs for the state in delivering public services. Its priorities increasingly help shape standards, leaving citizens to wonder why there is a state at all?

This may be an interesting philosophical point, but the real challenge is to determine which public good can best be delivered by whom and how. Private enterprise has shown it can deliver some public services satisfactorily in some environments. It does a bad job at others and in other environments. Should the state be reintermediated as the public service provider because delegation to the private sector has failed in some areas? Perhaps it should in some areas that it has delegated, but that might not always be the best answer, particularly if the failure is one of state supervision of service providers rather than a structural failure of the private sector. Is the regulatory framework too permissive or too restrictive? Are the resources dedicated to regulation sufficient? If the problem is, in fact, that the state does a poor job delegating, would it do a much better a job in direct delivery? Logic would argue the contrary. The solution is likely to be better oversight, not re-nationalization.

IN SUM

The displacement of the state by economic actors in some areas and cooperation between them in others does not necessarily undermine the state's capacity to protect the public good. What is essential is to define the respective spheres for the state and the economy and to manage their partnership in a way that is effective, transparent, accountable, and does not, ultimately, sacrifice public purpose to other considerations.

THE DELEGITIMISATION OF THE STATE BY CIVIL SOCIETY

The notion of national citizenship is mutating. Many citizens have come to believe that the democratic state does not adequately represent them. Many take no part in political life at all. Many limit their loyalty to the state and exercise their political role through nongovernmental organizations and other forms of social activism captured by the notion of "civil society." Civil society actors, empowered by information technology, act on both the national and the global level simultaneously.

NONGOVERNMENTAL ORGANISATIONS

Non-governmental organizations (NGOs), which were the first components of what has come to be labeled as civil society, have developed a powerful and positive role worldwide. They are a particularly important partner for modern states (and for the international system that states have built) in the pursuit of shared objectives.

NGOS DO VALUABLE THING THAT THE STATE CANNOT

NGOs perform a unique role around the world, defending the global commons, protecting universal rights, providing support for economic and social development to marginalized populations and assuring humanitarian relief in cases of catastrophe.

This partnership between states and NGOs has other dimensions that could also be advanced more vigorously. The state alone will not be able to satisfy the accelerating demand for services by an increasingly diverse and aging population and for management in a turbulent world environment. NGOs could take an increasingly important role in the provision of expertise to developing countries, the delivery of social services, building connectivity, community development, conflict management, disaster relief and environmental management and education.

When the state has made room in other areas, the private sector has moved in; the not-for-profit sector could do the same. It would be in the interests of both the state and the not-for-profit sector to work in a more concerted way on such sharing of responsibilities. A more systematic partnership role for the not-for-profit sector will also help to satisfy the demand of citizens for direct social engagement that more formal state structures cannot.

CIVIL SOCIETY

Civil society (the amalgam of movements that provide an umbrella for NGOs among others) might best be understood as a new “medium” for expressing diverse dissent, but one with few means to give these voices coherent expression. At this early stage of development, therefore, the movement tends to produce static rather than cogent alternatives. What is clear is that the phenomenon expresses both a fear of change and a mistrust of state and economic power.

The state could dismiss the phenomenon or try to engage civil society’s energies to help society manage change. Doing the former would be inconsistent with the values of an open society. On the other hand, engaging civil society actors in partnerships will be a challenge given that “civil society” has tended to define itself by exclusion. Its main unifying conviction is opposition to globalization while its most vocal representatives tend to be those who dismiss the state as the handmaid to “global capitalism” and find validation in fighting the “coalition” of capital and government.

Despite its “opponentist” posture, civil society has a dynamic relationship with both the state and business. It brings value to public life, in that it champions the “future” (e.g., environmental sustainability) in the broad political discourse, enriching and complementing the established structures of representative democracy. Its members have been effective in pressuring governments to revise the priority they attach to the issues of the global commons.

They have also had influence in shaping corporate behaviour. Relying on public scrutiny of corporate conduct, civil society activists and organizations have brought a discipline to the social behaviour of global corporations. Civil society actors, in short, have staked out a role in the conduct of society’s affairs. Despite its chaotic character, civil society is a player and needs to be approached that way.

The seeds of a more coherent role for civil society could lie in what is now an often uncomfortable, but broad-gauged collaboration with the state and the economy. The possibilities for partnership are extensive. The state will not be diminished further in pursuing them. It might suffer loss of legitimacy if it does not. Civil society, for its part, is now being challenged to make its structures of accountability and its policy expertise commensurate with the power that it wields. This is a process that the state should welcome because as civil society becomes more accountable, it will be obliged to become more articulate and focused, and hence a more constructive partner.

THE STATE CHALLENGED BY SOCIETY’S ENEMIES: A STRUGGLE NOW BROUGHT TO CRISIS

The horrors of September 11 were possible only because information technology enabled a spiritually alienated, but technologically connected group to plan a sophisticated global

operation. It used advanced, but easily available, technology to evade monitoring and apprehension, to gain control of sophisticated weapons (airplanes are smart bombs of the most horrific kind) and to guide them to their destinations. The global media impressed the entire human race in a matter of minutes with the impact of their actions. Further attacks are expected. They could employ even more sophisticated and fearsome technology. The media will likely again be used to turn these acts of brutality into calls for further violence by the disaffected. Further acts of terror will also escalate the intensity of the state's response.

As the state prepares defenses against further terrorist attacks, we might usefully note the broader security context. It is not reassuring. There are many technology-empowered forces arrayed against our societies besides religious terrorists:

- ?? Rogue authorities;
- ?? Traffickers in arms;
- ?? Traffickers in people;
- ?? Traffickers in hazardous waste;
- ?? Traffickers in drugs;
- ?? Traffickers in capital;
- ?? Internet nihilists;
- ?? Political and economic terrorists;
- ?? Swindlers with access to financial markets;
- ?? Pirates preying on trade routes; and
- ?? Combinations of all of the above.

All of these are intent on disintermediating the state, getting around, riding over or eliminating state capacity to constrain their activities. They have considerable assets in doing so. They use technologies that are widely available to transact their business and to evade authority. The technology available to them is more sophisticated than that which even the most sophisticated governments had ten years ago; it is certainly as powerful as that available to the majority of governments (outside the richest) today. Galloping advances in technology (encouraged as liberating and wealth enhancing in our societies) provide them with a growing arsenal. They hide in modern societies characterized by openness and freedom of movement. They network and regard borders as irrelevant.

New partnerships between state, business and civil society and most importantly, new levels of interstate cooperation will be necessary to fight them. Governments, stuck behind their borders, are now obliged to raise their defenses to a new level. But bureaucracies are large, often clumsy, constrained by constitutional imperatives and work painfully together, even within national jurisdictions. The challenges are permanent. International cooperation to meet them will have to be made equally durable. It will require new forms of information sharing, the use of technologies for generating and distribution of intelligence and new systems for patrolling global flows. Institutions will need to be built or strengthened to carry through this cooperation.

THE PARADOX OF THE COMMUNITY OF STATES APPARENTLY DISINTERMEDIATING ITS MEMBERS

There seems no meaningful alternative to intensified multilateral cooperation given the burgeoning of global flows that require attention: growth in global migration, environmental degradation; flows of information, capital, and goods; and threats from criminality and terrorism.

The current security crisis provides an unparalleled opportunity to make multilateral cooperation effective and durable. There is no guarantee, however, that this will happen. Large groups of citizens see the state, in accepting multilateral disciplines, as “selling them out,” and consequently, as unworthy of loyalty. This perception is not just the preserve of nativists who argue “My country, right or wrong” as they do in opposing NAFTA or the United Nations; perversely it also drives some of those for whom the state should be the defender of universal values. They protested at Seattle, against the WTO, in Prague against the IMF, in Genoa against the G-8, on the grounds that congresses of States are unaccountable and on the basis of suspicion that they conspire against the global commons in ways that singly, they could not. Those who see multilateralism in these terms, dismiss the state as being out of control. There are, however, many who see the development of supranational authority as essential if global issues are to be addressed effectively. At present, both schools have ample grounds to criticize the system. States appear to be delegating great power to some multilateral institutions, such as the WTO. These institutions, however, are much less powerful or effective than they appear. Nonetheless they carry the responsibility for deeply intrusive agreements among states on economic issues. As these prescriptions seem to falter, the institutions’ legitimacy becomes increasingly tenuous.

Though all states will have a role in defining the future of multilateralism, the role of the United States is determining. The current U.S. administration has been measured in its support of multilateral institutions. Though it has been at pains to involve the world community in the present struggle against international terror, its long-term approach is not yet established in such a positive spirit. Much depends on what that spirit will be, given the dominance of US power in the world today.

The United States could seek to assert a form of unilateral discipline in the belief that it is uniquely capable of providing a basis for world governance, but such a system is unlikely to be as durable as one based in shared objectives and pursued on a cooperative basis. A “cooperative” system, on the other hand, might be less responsive in the case of crisis. Its partners have to keep the U.S. engaged in defining the new system. It will be critical to get the balance “right” among the imperatives for durability, accountability and effectiveness in multilateralism if citizens are to accept the multilateral system as a valid adjunct to the nation-state.

WHERE TO NOW? REINTERMEDIATING THE STATE

Democratic societies today find their security under threat from many sides. As they look to the state for protection, they find it considerably diminished.

How does this lesser state define its role now, to meet society's new expectations? How will it, in this moment of crisis, transform itself? What new place should it define for itself among the various nodes of power that have emerged in the global environment?

FROM WELFARE STATE, TO MODEST STATE, TO NETWORK STATE

Success in defining a valid role for the state will depend on what responsibilities it chooses to retain and fulfill effectively. What is the comparative advantage of the state in the age of globalization? What roles can only the state play satisfactorily? Where should it invest its energies? Such a discussion is much beyond the scope of this paper, but some areas of comparative advantage are self-evident:

- ?? Only the state, through its legislative arm, can arbitrate different interests within society and create the laws that bind the behaviour of its citizens;
- ?? Only the state can protect society against external violence and coercion;
- ?? Only the state, through a disinterested and duly accountable administration, can regulate the economy, public health and the commons;
- ?? Only the state, through an independent Judiciary, can protect the rights of its citizens.

Most important, only the democratically mandated state has the moral authority to shape and lead networks of partnerships to achieve society's shared objectives. Those networks and partnerships will need to include powers with which states are used to cooperating as well as non traditional partners. They will need to extend within and outside borders. They will need new institutional expression as well as the reinforcement of existing structures.

It will be no easy task to convert state structures that had been built to "direct and control" to act as nodes in networks, but transformation in that direction is already under way, enabled by technology and pushed forward by the state's partners and clients. As it moves in this direction, the state will need to build on the capacity it already has in place for networking and partnership.

One important dimension of that capacity is its diplomatic arm.

PART III

THE FALL AND RISE OF MODERN DIPLOMACY⁶

Professional diplomacy is, uniquely, an instrument of the state. It is the state expressing itself beyond its own sovereign boundaries. It is also something more than that, a “virtual system” of bridges among nodes of power in the world.

The professional guild that conducts diplomacy has been disintermediated in the same way as the state at large: first by disappointment among its clients, then by displacement by “competitors”. Now, however, the core functions it performs are again in demand. The complexity of the present conflict against terrorism, with unknown enemies, fought in an alien terrain, fraught with misunderstanding and mistrust, illustrates a wider reality: borders are ever less a meaningful way to organize society’s affairs. Our societies have to work through partnerships, with shared purpose and mutual understanding, in an interdependent world of many smaller worlds.

THE DIFFERENCE BETWEEN “DIPLOMACY” AND DIPLOMACY?

Diplomacy may be the second oldest profession, but it is the oldest craft; the ability to practice it defines a human being. Even the smallest group needs to practice diplomacy to survive; the family would not exist without it. Everyone is a diplomat in that micro sense; we all need to be able to persuade others to do what we want; all need to secure the cooperation of others for survival; all need to be able to at least understand the needs of others. Civilization and diplomacy are inseparable; when diplomacy fails, violence is often the next alternative.

“Diplomacy” therefore is practiced at many different levels. Social interaction, however primitive, requires knowledge and understanding of others, which is easy to gain in small communities through direct acquaintance. The difficulty grows with the complexity of the interaction and the distance between the parties. The greater the distance (whether physical, linguistic, cultural, social or economic), the more difficult it is for parties to have direct knowledge of each other, and the greater the need for intermediaries to provide bridges of understanding. The higher the level of complexity in relationships, the more difficult it becomes to conduct business directly, face to face, all the time. It needs delegates and institutions.

Intermediation of different kinds is provided by civic, business, community and religious institutions within societies; indeed their existence is the vital precondition for society. Politics is

⁶ The term “diplomacy” will be shorthand for both the international guild of professional diplomats who work for states and the activities they pursue, as well as the Foreign Ministries to which these diplomats report and which act as the interface with their own home authorities

a more complex form of that intermediation; the state is the ultimate intermediary institution created to date.

Professional diplomacy (the conduct of “international relations”) evolved as the function of a global guild that intermediates between states and societies separated by institutions, law, culture, economics, and language. Historically, that had been its exclusive preserve.⁷ Now, however, the growing importance of global flows, the growing complexity and intensity of relationships across societies and the emergence of a “global society” means that a growing array of actors can and need to deal internationally without intermediation. A profession that was an essential part of an international power system managed by national elites now has to justify a role for itself in a fundamentally pluralistic universe.

DIPLOMACY IN A GLOBALIZED WORLD

There are many paradoxes innate in globalization. One is particularly relevant here: the existence of a global community of elites can make it both easier and harder to know and deal with the realities of other societies. Being able to communicate with other members of the global elite (who share a second language, similar patterns of consumption, a shared second culture) enables national actors to work directly through their own international networks. But this apparent universalism can be deceptive and disappoint, as national elites may be further from their own society’s realities than they are from those of the Metropolis. As the gap between the advanced industrialized world and the developing one increases, members of the global elite who belong to the latter, too often spend a decreasing amount of time in contact with their own societies. It requires more, rather than less sophistication in this heterogeneous world of genuine, apparent and virtual communities to be able to know the difference between what is real and what is wishful thinking. Telling the difference is more than ever a key contribution that professional diplomacy can make to statecraft.

DIPLOMACY IN THE SEVENTIES: DISINTERMEDIATION BEGINS

⁷ The diplomatic guild that conducts these relations has historically trod a delicate no-man’s land, sufficient to itself, working for, but apart from the societies whose interest it transacts. What makes it possible for it to do what it is delegated to do, i.e., to act collectively as bridges among societies, is a certain detachment. But that does not make it any more loved. Diplomats are not necessarily always welcome in receiving societies (“don’t shoot the messenger”) nor are they fully integrated into their own (“don’t shoot the messenger” applies there too). The fact that diplomats too often appeared to disdain domestic policy concerns has not helped them manage the increasingly difficult intersection of national and foreign policy.

Diplomacy, being an instrument of the state, was profoundly affected by the disintermediation of the state itself. Some of what follows then, is a mirror of the earlier discussion of the state as a whole. Diplomacy, however, also faced particular challenges of its own, challenges not necessarily shared by other parts of the state apparatus.

No different from the case of any other profession, diplomacy has always had its critics when things went wrong. What started to happen in the 1970s, however, was different. Diplomacy was not just criticized for its failures, but was dismissed as irrelevant, as in P.E. Trudeau's fashionable rationalization that he could learn more from reading the *Economist* than from diplomatic dispatches.

Frustration with the Cold War freeze on creative diplomacy, and the paralysis of the international institutions to conduct it, created skepticism about the value of the profession within governments and cynicism about its purposes more widely. No doubt in an effort to give guidance to a profession seen to be in search of a role, politicians like Trudeau argued that diplomacy was valuable in the degree to which it extended national self-interest beyond a country's borders. The nature of that self-interest, however, was often vaguely or narrowly defined.

More helpfully, foreign ministries were increasingly encouraged to integrate into the general public service in order to ensure that they could bring the external reality into domestic decision-making, and be better at reflecting domestic realities abroad. Narrow mindedly, on their side, they moved very reluctantly in this direction. Their response, in turn, heightened the frustration of others in government. Enabled by advances in information technology, other ministries established their own sectoral capacity to transact international business. Leaders also took it on themselves to be their own emissaries in the conduct of summit diplomacy.

As the opportunities for international travel and work increased, growing numbers of people took them and developed their own views of the world. They brought these into government (particularly to development aid agencies), into the economy and into civil society, enriching the discourse, but putting the diplomatic profession on the defensive.

The changing nature of power in the world also had an important role in sidelining traditional approaches to international affairs. The Cold War maintained a largely inert security balance, but the rising importance of international trade demanded both creative rule-making and institutions and trade diplomacy grew to meet the demand. Traditional Foreign Ministries had little expertise or interest in this universe and were seen as having little to contribute in this area. The field was fought over among government agencies, with Foreign Ministries most often the losers.⁸

⁸ In Canada, where External Affairs had historically played a strong coordinating role in trade negotiations, the decision was made early to integrate economic dimensions fully within the Ministry, an example increasingly adopted elsewhere.

In sum, it was governments, disappointed with the effectiveness and attitude of their diplomatic arms, who led in disintermediating the profession. They were abetted, however, by the profession itself. Foreign Ministries played defense, but without enormous success, as they sought to prove relevance by finding new priorities, for instance in commercial promotion. Increasingly their energies went to support ministerial diplomacy, as international travel became more a matter of course. Governments judged Ministries in some large part by how well these tasks were managed.

The end of the Cold War did little to change the situation. The 1990s were not a decade of international construction; though there was scope for dramatic advances in diplomacy, little was done to exploit it.

THE NEW CENTURY AND THE OPPORTUNITY OF HARD TIMES

Difficult challenges can pop up in the most obscure places, and it is increasingly the case that only global approaches are likely to be effective in addressing them. September 11 and its aftermath prove that. Providing the perceptive presence and deploying the purposeful networks necessary to engage with the world's diverse centres of power is the unique contribution of diplomacy. It is the platform for all its value-added services:

- ?? to help national actors succeed in the world;
- ?? to provide decision makers with informed counsel about the external environment as it affects national policy;
- ?? to inform public discourse with objective and accurate information about the external world;
- ?? to build the international partnerships necessary to pursue national interest in a globalised environment; and, not least,
- ?? to help articulate global objectives and foster global institutions that can help global society cope with global challenges.

Is modern diplomacy still up to doing all this effectively? Are others more so? How can it best be done?

CAPACITY: THREADBARE IN PIN STRIPES

Foreign Ministries are still among the most traditional of bureaucracies. They try to assert a mandate to coordinate the full range of their state's international engagement; they still try to conduct the bulk of their business abroad relying on physical presence, mostly in capital cities; they still treat information as a scarce good to be protected; they are still hierarchical and train

their officers to be generalists through prolonged apprenticeships. Their place within their own governments and society remain (perhaps unavoidably) ambiguous. They are, lastly, underfunded and over-stretched.

Offsetting all these deficits is the capacity of the profession to attract (if not necessarily to retain) motivated and talented people with a sense of public duty and openness to the world. It also has identifiable constituencies; for instance in business, civil society and academia, who act as engaged critics and partners. The profession may also have a higher profile among national publics than most other parts of government, since citizens take pride in their countries' international accomplishments and because they see diplomats as a personal support system in case of need abroad. Diplomacy is also, despite its shortcomings, a profession capable of considerable adaptation:

- ?? adopting advanced communications technologies for information gathering and dissemination, as well as for effective networking and partnership;
- ?? maintaining and building expertise in areas of activity (most significantly international trade and economics) that bring them closer to their societies;
- ?? developing new techniques of "public diplomacy."

None of these assets, however, yet seems to have offset the sense "out there" in government that "foreign affairs" is, at the end of the day, mostly for show or "really just for foreigners." The profession will need to help society meet a number of challenges before that will change.

THE CHALLENGES TO MEET

SPEAKING TO POWER WHATEVER IT IS, WHEREVER IT IS

External power used to be largely in the hands of other states. Now it also lies increasingly in the hands of:

- ?? Multilateral organizations (still under direct state control, but sometimes capable of limited independent action);
- ?? Sub-national jurisdictions that often contest the power of federal states;
- ?? Multinational corporations that act on a global level, often alongside states;
- ?? Organized "civil society", sometimes virtual, acting globally;
- ?? Media;
- ?? Financial markets, and those who influence them;
- ?? Religious movements, and sadly; and
- ?? The violent and the fractious.

All are able to act globally. No single state, however powerful, can consider itself truly sovereign over them all. Nor can any state ignore them. Some are powers for good and others

for ill. All have real power to affect our societies. Diplomacy has, increasingly, to engage these new powers. Engagement will require new expertise and new ways to accommodate new players at tables previously reserved for state representatives alone.

The physical setting of power is also changing. National capitals have less relevance per se. They are not necessarily the physical location of nodes of power. These could be regional capitals like Brussels which house expert bureaucracies who set rules that have global impact, centres like New York, among financial analysts able to steer global investment flows or in places like Bentonville, Arkansas⁹, whose significance is due entirely to the presence of a single entity; or they (social movements within civil society for instance) might have no physical seat at all, and have to be dealt with in their own medium, by Internet or everywhere at once; or they could be situated in a variety of settings simultaneously (the global, regional and local arms of global corporations all having different responsibilities).

The absence of power—through fraying and breakdown of traditional structures of authority—also poses new challenges to diplomacy. Preventative diplomacy and temporary exercise of civil authority in areas without government is an increasingly important dimension of the profession, though the capacity to decide on such action and the resources to pursue it are still far from adequate.

INTERMESTICITY: FROM INVIOLEABLE SOVEREIGNTY TO UNIVERSAL INTRUSIVENESS

Global flows play an ever more important role in national affairs. A growing portion of the domestic policy agenda falls into the class of issues that cannot be managed exclusively behind borders, such as environmental management, human rights, financial regulation, immigration policy, transport infrastructure, police powers, health and food safety, intellectual property protection, industrial policy, biotechnology governance and telecommunications management. “International relations,” accordingly, has to be increasingly concerned with the management of what are shared issues within as well as between jurisdictions.

The amalgam of these issues constitutes a hybrid agenda one that has been labeled as “intermesticity.” Governments are increasingly obliged to abandon rigid codes of sovereignty and to stress coherence and compatibility between domestic and foreign policy in order to manage intermestic issues effectively. Foreign Ministries have often been obliged to accept a secondary role in the management of these new front line issues on the international agenda. That is as it should be, up to a point. An institution whose specialty is “intermediation” cannot pretend to dominant expertise in all the areas on the national agenda.

⁹ Headquarters of Wal-Mart.

Yet as the national agenda becomes increasingly “internationalized” someone has to bring international expertise to its management. Sectoral ministries have their own priorities to satisfy. Cabinet Offices are often too small to maintain an ongoing policy management role. Foreign Ministries are still the best placed to defend policy coherence on the international front but though they bring a knowledge of the international environment to policy table, they have neither enough expertise on the substance of the issues on the agenda nor the power to coordinate policy that is not under their narrow sphere of direct responsibility.

A Classic case of Intermesticity: Canada/US Relations

There is no better case study of intermesticity than the relationship between Canada and the United States. Nor, given the asymmetry in power between the two countries, is managing intermesticity a more important issue anywhere than in Canada (with the possible exception of EU states, which have already found institutional mechanisms for doing it).

Canada and the United States are (usually) like-minded sovereign partners in the international system. But they are also neighbours along an undefended (and indefensible) border and share a common ecosystem. They share institutional, legal, historic, family roots, values and a large measure of culture. They face common military and security challenges.

The two economies are closely integrated; being each other’s largest trading partner. The economic interpenetration is not restricted to trade; investment flows between the two countries makes them a powerful presence in each other’s socio-economic space, though asymmetrically. The structures of corporate governance reflect a growing premise that economic policy frameworks are converging, a process made practically irreversible by the Free Trade Agreement of 1988. The Canadian economy relies as a matter of survival on unrestricted access to US markets, and fully 25% of US exports go to Canada. Economic regulation in one country affects the other, and domestic economic policies (certainly those of the more vulnerable partner) have to be shaped with this consideration constantly in mind.

Similarly, national policies in many other spheres, culture, industry, environment, energy, defense, security, have to be managed, in Canada at least, in a way that is conscious of the implications for policy differences between the two countries. Skillful diplomacy will be ever more critical in managing the “international” dimension of the relationship to ensure:

- ?? That Canadian interests are represented effectively to nodes of power in the United States, and that the necessary alliances to defend those interests are formed and maintained;
- ?? That domestic policymaking in Canada is fully conscious of the impact of decisions on the United States and the consequences for the relationship;
- ?? That Canadian interests are pursued in the broader world independent of the United States, but in a way that is conscious of Canadian interests vis a vis the United States; and
- ?? That Canada be able to leverage the power of the United States to advance changes in the international environment that Canada wishes to promote.

COHERENCE AMONG INTERNATIONAL POLICIES

An uncontested role of Foreign Ministries in less complex times had been to provide governments with a coherent foreign policy framework. That role has become more and more narrowly defined, just as globalization makes divisions between major policy areas ever less meaningful. Their integration into a coherent framework is essential if the state is to deploy scarce resources effectively in a globalized environment.

Trade

The underlying assumption in trade policy is that liberalized rules remove barriers to virtuous flows, and in the process, bring greater prosperity for all. Experience has shown that the picture is a good deal more complicated. Furthermore, as liberalization proceeds, the trade policy agenda increasingly touches issues far closer to the heart of domestic policy than in the past. “Trade” is a quintessentially “intermestic” policy sector. Investor rights, intellectual property protection, trade in services and agricultural subsidies, to chose a few salient examples, all pose delicate issues for domestic policymakers. Canada has been among the leaders in arguing that trade agreements are ever less amenable to “closed box” technical negotiation, and that their implementation requires transparency, and some measure of social consensus to be sustainable.

Defense and Security

If ever it were true that there is no clear line between war and diplomacy, it is now: we are engaged in a conflict with an invisible enemy; the nature of the war to be fought is far from clear; the fronts on which it is being fought include our own territories; the ultimate prize is as much the opinion of millions in diverse cultures and societies as the destruction of the physical enemy. The war, in short, is both military and diplomatic. Diplomats are sometimes caught in armed conflict; soldiers increasingly act as diplomats. Any outcome from the conflict will have to shaped, agreed, and managed through diplomacy. The maintenance of cohesion among those engaged in the conflict is also the role of diplomacy. Any failure in integrating the two dimensions is likely to be disastrous for the long term.

There are more general reasons why broader non-military concerns will have a greater role in driving defense policy. The purpose of war is changing. International contention is ever less about the control of territory and more about assured access to trade routes, resources and markets.¹⁰

¹⁰ With the additional issue of high technology, rogue attacks in pursuit of religious, national or ideological causes.

The balance of military power is also changing profoundly. Cold War bi-polarity has given way to a situation (it cannot yet be called a balance) where the United States is in a military league entirely of its own, more powerful than its allies and enemies combined. This imbalance makes it vitally important to define a new role for the military of everyone else. How will they relate to the United States fighting its own world war to ward off threats to its national security? What tasks in maintaining international stability will others be prepared to assume? What roles will the United States be prepared to assign its allies? Is it to mop up, to keep the peace created by the United States, to forestall wars to be stanchd by the United States? If others are not in a position to act at the same level of intensity, what can they do to assist, dissent from, or influence the “central power”?

A world of porous borders and global flows obliges governments to integrate all dimensions of security into one broad framework. Security threats today come less from the prospect of military aggression (certainly in the case of North America), than from terror and chaos. Threats to our human security in the form of traffic in drugs, people, arms, hazardous waste and capital are an increasingly unavoidable dimension of globalization. Protection against these flows has to involve the shared action of many agencies within and across national borders. A new branch of multilateral diplomacy involving security, police, intelligence and financial regulatory agencies is evolving rapidly to address them.

Development Assistance

Globalization has brought only attenuated benefits to the majority of the world’s population. Disappointment among marginalized populations has been profound enough to challenge the legitimacy of what are often vulnerable states. Despite many successes, development strategies do not appear to have offset this volatile disappointment. There are many reasons for this. One appears to have been that industrialized states have allowed components of their external economic policies to be conducted independently of, and sometimes in conflict with, each other. For instance:

- ?? Restrictions on access to our markets negated the benefits from development funding;
- ?? Debt disciplines were undercut by debt forgiveness and vice versa;
- ?? Humanitarian assistance was vitiated by aid given to parties engaged in armed conflict;
- ?? Modernization strategies brought about the “creative destruction” of traditional social structures for which there was no adequate replacement;
- ?? Economic growth independent of environmental impact assessments led to ecological breakdown; and
- ?? Unconditional transfers to fund development strategies often stoked government corruption.

As grievances continue to fuel crises, the need for coherence among policies for development—and they include a wide spectrum: defense, finance, environment, health, migration, human rights, governance, multiculturalism—becomes more urgent.

The need for coherence among international policies is, in short, pressing. There is no magic mechanism to provide it, nor are there many options for who might do so. Foreign Ministries will certainly be among them, but they will continue to find the role difficult without a clear mandate, strong expertise, and partnerships within the policy community.

THE VALUE OF DIPLOMATIC INTELLIGENCE

Information on everything is now increasingly available, instantly and everywhere, to everyone in modern societies. Neither quantity nor timeliness, however, guarantees the accuracy or pertinence of that “information mass.” It is generated by a myriad sources with a myriad motives. In such a profligate universe of information, decision-makers need intelligence, i.e., information that has been knowledgeably filtered and verified, that is objective and focused on their concerns. Diplomats (and intelligence agencies) have been the only agents that the state could reliably task to act in this capacity. That exclusivity, however, is now history.

- ?? Government departments concerned with an increasingly globalized policy agenda maintain their own information networks and often bypass diplomatic intermediaries.
- ?? Business concerns have access to global networks and also maintain a capacity to gather information directly.
- ?? The media is omnipresent and makes a competing, if not always valid claim to providing informed, impartial, client-relevant information.
- ?? Civil society organizations are present in many environments where diplomats are not, and they often generate information based on deep local knowledge and sensitivity. They too compete for credibility, but constitute a potent partner in understanding complex environments.

“Competition” from these sources is a challenge for the diplomatic guild, but should not be a “problem.” On the contrary, their competitors are also often diplomats’ best partners in generating “intelligence.” The real problem is that underinvestment in specialized knowledge and informed presence is making diplomacy a less powerful partner for them.

Good intelligence requires more than just “being there.” It demands a knowledge of languages and context that takes time and experience to acquire. It requires openness to new sources of information and the capacity to filter the data with an understanding of the national interest. In a period when diplomacy was increasingly seen as irrelevant, these capacities were allowed to decline. They now need to be urgently invigorated.

OUTREACH AND PUBLIC DIPLOMACY

The number of diplomacy’s clients and partners increases as power is wielded from more and more points within our own societies. The public dimensions of diplomacy have traditionally been externally focused: diplomats convey a national image to foreign audiences. The intrusive

nature of the international agenda and the need for an informed public to help pursue society's interests internationally will demand a higher emphasis on public diplomacy at home. It will demand a new level of engagement with civil society, universities, media and business groups, reproducing, in effect, partnerships that are a basic component of diplomacy abroad. It will demand that diplomats become more actively engaged with their home societies to bring objective, informed views of the outside world to domestic discourse. It will also provide diplomacy with allies who could project their influence through global networks of their own.

NEW MULTILATERALISM: TURNING BRIDGES INTO PLATFORMS

States developed multilateral institutions to help them manage issues among themselves. Supranational authority has yet to emerge, though there are some possible exceptions such as the dispute resolution system in the WTO. Diplomats have fulfilled a sometimes contradictory set of roles in the multilateral system, as its architects and stewards. They have fostered a level of authority that aspires to be superior to that of the nation state. At the same time they represent nation states that are reluctant to let these institutions escape their control. As the global nature of challenges becomes irrefutably clear to national publics, the role of diplomacy might become more unambiguously the construction of supranational institutions.

The EU is providing an example of the complexity of such a process, but also of the potential benefits of sharing of sovereignty. UN institutions are pioneering new ways to provide order in a globalized environment. Beyond traditional action to create law and enforce agreements, they are developing non-binding but effective codes of conduct for state and non-state actors which are reinforced through mechanisms of public accountability. They are also creating networks for common action with corporate and civil society actors in defense of the global commons. There is considerable additional room for action by international institutions for, among other areas, cooperation in fighting global terrorism and other criminal phenomena, the articulation and defense of human rights, dispute management and resolution and coordination of international assistance for development. Diplomats will, in short, have increasing scope for acting on behalf of and through such institutions to build new capacity for global governance.

FROM GUILD TO NETWORK

The foregoing has set out a formidable list of challenges to the practice of diplomacy; these challenges also constitute an exceptional opportunity to rejuvenate the profession. Profiting from the opportunity will, however, require the development of new skills and attitudes. It will, furthermore, require an approach to the conduct of diplomacy that focuses on dealing directly with power in its own language wherever it may be, and in whatever form it asserts itself, by:

- ?? Diversifying the nature of diplomatic presence by developing new information technology related expertise for instance in "net diplomacy," establishing relations with virtual as well as physically rooted communities;

- ?? Developing new techniques for management of relationships with diverse clients, on a global, rather than a geographically specific basis; and
- ?? Broadening the diplomatic Guild into a network of networks, to include economic actors, sectoral officials with their own global networks, officials of sub-national, regional and global jurisdictions, experts in science, technology, economics and culture, media, and civil society representatives.

It will require investment in diplomats who speak the languages of widely diverse cultures and who have specialized knowledge of economic, defense and other policy areas. It will also demand careers for permanent employees who are prepared to develop and maintain narrow fields of sectoral or regional specialization at headquarters.

States will be well advised to make this modernization of their diplomacy one of their priorities if they are to be successful in meeting the challenges of a globalized world. Others concerned about more effective management of global issues will have an equal self interest in making diplomacy an effective instrument and partner in their efforts.

The basic responsibility for survival of the profession, however, lies with the guild itself. It is an institution that responded well in a world managed through elite accommodation among sovereign states. It is forced to adapt to an increasingly pluralist reality. Adaptation is made easier by the fact that the profession's core competencies—networking and intelligence management—both speak to pluralism. All that is required for its continued success is for the profession to reorganize its affairs in a way that allows it to maximize these strengths.

ENDNOTE

The purpose of this paper was to discuss how changes in technology, demographics and culture have served to disintermediate public institutions. It noted how the challenge has spurred positive change as well as a loss of capacity, and used the example of the Canadian charter banks to demonstrate the difficulty of accepting transformative change, even in a context where markets provided clear indications of the necessary response. It explored the gradual disintermediation of the state and the challenge it faces in redefining its relationship with society.

The paper concludes that the fears of globalization as well as the possibilities it provides national actors for intervening directly on the international stage had led to disillusionment with diplomacy and its marginalization. The mature reality of globalization now makes diplomacy vital. Intensified global interdependence, the confusion of cultures, the complexity of interests, the variety and immediacy of challenges and the multiplication of nodes of power in the world demand ever more innovative and professional intermediation.

Diplomacy *is* intermediation. The challenge to the profession is to accept the need for transformation in method, organization and strategy if it is to fulfill that function today. After

decades of piecemeal adaptation and growing doubts on purpose, that challenge today is as urgent as it is exciting.