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18 Strange Looks on Developing Countries: A Neglected Kaleidoscope of Questions

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Introduction

The relevance of Strange's work to developing countries is often overlooked. This owes more to the lack of interest and the selective reading of most commentators than to the absence of arguments and threads of thought regarding developing countries in Strange's writings. One of her major books *(Rival States, Rival Firms),* deals mainly with structural change in international production and its implications for developing countries. The book is based on case studies of Kenya, Malaysia and Brazil. In Strange's thinking about international finance, the 'debt problem' and its effects for developing countries as well as for the international financial system figure prominently. Most significantly, one of her fundamental questions was always *cui bono?* In answering it, she invariably refers to developing countries. In other words, although Strange was no doubt most interested in overall international structural change, it is not necessary to dig out the odd footnote to find ideas about developing countries and how to study them.

The aim of this chapter is to bring out this generally overlooked aspect of Strange's work. It proceeds by drawing attention to the pillars around which Strange's approach evolves. It begins by underlining the crucial and growing importance of international structures (second section) and, in particular, international financial structures (third section) for the analysis of developing countries. It develops Strange's claims that it is increasingly difficult to opt out of the international system, that development is increasingly asymmetrical and that, consequently, questions of international regulation becom~ increasingly salient. The chapter then follows Strange in arguing that private actors (fourth section), as opposed to states, governments and policy makers (fifth section), are central for understanding developing countries. I develop the argument that private actors have been empowered by recent structural shifts and that, although the state is very important, state capacity has been severely circumscribed. Each section further argues that it is important to move beyond general arguments and trends, and to understand variations and nuances in the effects of trends and applicability of arguments. In short, the chapter argues that Strange's approach opens an interesting and rich kaleidoscope of questions. However, it also points to areas where the analysis and the answers would have been more convincing and richer if Strange had developed more explicit links with existing literature on

developing countries.

Dependency Today: the Overarching Theme

> *Opting out of the world market economy is no longer an option.*
> *That is what dependency means today* (Strange 1994: 215).

An overarching theme in Strange's work is the priority of international structures, yet she is no friend of dependency. On the contrary "dependency is an antique bed due for the junkyard" (Stopford and Strange 1991: 228). Contrary to dependency scholars, as she reads them[2], Strange thinks that the influence of international structures can be positive as well as negative and that there is no escape from it. Strategies of self-reliance are no longer viable. Instead, developing countries have to use the opportunities opened by recent structural changes in the international economy. Their very unequal ability to do this (for internal or external reasons) explains the growing disparity among developing countries. It also points to the significance of international economic regulation as the only possible way of improving the fate of developing countries on the whole.

Strange insists, as dependency scholars or Hirschman (1980: v-xii) would, that the economy has to be thought of in structural or systemic terms. The rules of the game advantage and empower some actors as opposed to others. They make it possible for some states, but not for others, to pursue the 'national' economic policies they want, set the agenda in international institutions, and ignore the effects their policies have on others. The implication is that, first, states can gain and lose power through the structural effects of the international system; second, these systemic effects can be instrumentalized; and third states have unequal capacity to influence, and assume responsibility for, order and disorder in the international system. The refusal of scholars to recognize this political nature of the international economy is something Strange consistently criticized.

Strange further insists that recent changes in the international political economy have made it more necessary than ever to give priority to international structures in the analysis of developing countries. Technological change and politics (of public and private actors) have led to a change in the way the economy works. They have made the rapidly growing internationalization of production and finance possible. Moreover, they have resulted in an increasingly technology-intensive production where profit margins are squeezed. In these conditions, strategic alliances have become crucial to reduce costs and risks or to extend market shares. Similarly, finance and financial strategies have become increasingly important both to firms and to states. These processes further accelerate the process of internationalization. The result is that the rules of the game in national economies and the direction of change are determined by 'international' structures:

> *We [Stopford and Strange] tried to explain how and why it was that some national institutions were better able than others to help firms respond promptly and effectively to these new challenges. But we also tried to explain that the need to respond at all was due to structural changes in the whole world market economy.* (Strange 1997: 184)

Strange pinpoints some crucial implications of these changes for developing countries. The first is that development is increasingly difficult and unequal. More successful developing countries manage to take advantage of the new opportunities:

they attract foreign-owned firms keen to lower costs and capture market shares, play investors off against each other and make better use of them. They have access to international financial markets at reasonable costs and enjoy investor confidence. By contrast, the poorest countries find themselves trapped in a vicious circle where their underdevelopment is aggravated by their incapacity to attract investors and finance because of their underdevelopment. While more successful countries have the stable institutions and international clout necessary to deal with international instability and crisis, the poorest ones end up as pariahs in the international economy. Moreover, the asymmetry between rich and poor countries tends to increase. Poor countries face increasing barriers to entry into the world markets, are increasingly vulnerable to international financial markets, have an ever-weaker influence over the way the international economy is governed and often (partly as a consequence) have very weak states.

A second effect of structural change is that withdrawal is no longer an option. A country, or a group of individuals, cannot simply decide that they do not want to participate in the international economy and thereby free themselves from its influence. Or, more correctly, the price of doing so is exceedingly high. The reason is, first, that there are considerable advantages to openness. The altered nature of technology and competition has made reliance on foreign-owned firms for market access, technology and job creation a *sine qua non* of development. Moreover, access to international financial markets as a source of credit and profits is increasingly important both for firms and for public institutions. Second, public and private institutions (including the IMF, WTO, other governments, foreign and local business, rating agencies and hedge funds) pressurize countries to open up to international trade, direct investment and finance. Heavy penalties, such as the closing down of financial and trade markets, the absence of investors, lowered credit ratings and pressure on currencies, usually face countries who do not comply. Consequently, although openness may not bring development, forgoing openness amounts to forgoing development. For Strange, it is therefore not surprising that most countries chose to 'liberalize' and see strategies of self-reliance as neither adequate nor realistic.

Third, since the economic and political fate of developing countries is increasingly decided by international factors, it is crucial to think about international regulation (Strange 1995: 72). For Strange, the key characteristic of present international regulation is "ungovernance": an increasing number of issues remain unregulated. The existing regulation tends to express the interest of dominant states and private actors. it is not the outcome of a formal political process. Central issues never get onto the agenda of international organizations and, if they do, the IOs have little chance of arriving at and implementing decisions that do not reflect the interests of dominant actors. Clearly, some governments, the US in particular, bear more responsibility for, and have benefitted more from, this state of affairs than others. There is growing asymmetry 'between states whose domestic policies have an impact on societies and economies other than their own, and states which have no such power and were more likely to suffer and have to adapt to the domestic policies of the more powerful governments' (Strange 1998a: 706). Partly because of this, Strange is skeptical about the prospects of international regulation. The 'assumption is that Africa does not matter because no important economic interests are greatly affected' (1998b: 116). But an even greater obstacle may be that in many cases regulation would require the collaboration, if not the control, of private actors.

A final significant implication of Strange's analysis is that it questions the tendency to think about developmental successes and failures *exclusively* in terms of state

strategies and responsibilities. In many cases:

> *failure to manage the national economy, to maintain employment and sustain economic growth, to avoid imbalances of payments with other states, to control the rate of interest and the exchange rate is not a matter of technical incompetence, nor moral turpitude nor political maladroitness. It is neither in any direct sense their fault, nor the fault of others. None of these failures can be blamed on other countries or on other governments. They are, simply, the victims of the market.* (Strange 1996: 14)

This is not to say that governments are relieved of responsibility or that no institutions and policies are better than others. The point is a different one, namely that the capacity of the state to achieve its goals needs to be placed in perspective.

The following sections develop central aspects of this general caveat. However, it is useful to first point out that it is directly tied to some of the most heated and central debates about developing countries today. Moreover, linking up to these debates would be a good way of refining the arguments and answering the questions emerging from the general caveat.

First, the debate about the nature of Strange's structural shifts is far from closed and much remains to be done to refine and develop our understanding of them. Many authors contest that they exist at all. Some argue that the world is no more integrated than before World War II (Hirst and Thompson 1996). Others claim that the present trend is merely a 'return' to normal (Mann 1997) or that it is simply vastly overstated (Wade 1996). Strange would be the first to recognize that, because of the complexity and dynamism involved in the changes she describes, the areas of 'significant ignorance' have become larger rather than smaller and that, in order to understand the processes under way, continued research is badly needed. However, to make the argument convincing, a more refined and detailed analysis is required. Strange points out that arguments based on existing statistics are often inadequate because they fail to capture the shifts or because they misinterpret the data available (Strange 1998b). However, this is an insufficient reason for not trying to do better. Linking up more extensively with existing writing on the subject would be an obvious start.

Second, further specifying what is meant by 'no opt out' and how much scope for variation remains seems very important. North Korean style autarky may neither be attractive nor feasible. Everyone will agree. However, restricting capital account openness, and to a certain extent foreign direct investment and trade may well be viable (Amsden 1990; Wade and Veneroso 1998). Such nuances are crucial and are intensely debated. Linking up Strange's work with this issue would be an excellent way of refining and strengthening our understanding of the extent to which opting out is really precluded and, how much leeway there is for states and their citizens to decide on a particular kind of society, reflecting a particular mix of values.

Finally, Strange's work tends to assume rather than elaborate on the mechanisms by which structural shifts affect developing counfries. Clearly, again this is an area that is replete with work. Indeed, the question of how international and national structures are articulated has haunted not only dependency scholars[3] and their present-day heirs, but also most political economy work on developing countries. Linking up with this is a precondition to advance the usefulness of Strange's approach for analyzing how and why asymmetries in development are linked to the (non) regulation in specific areas of the international economy. Strange would most likely have started to develop this linkage through examining how the governance of

international finance affects development.

Involuntary Losers in the International Casino: the Implications of Structural Change

The aspect of international structural change that Strange worked the most on is that of finance. She writes that: 'my personal conviction '... is that it is *the* prime issue of international politics and economics' (1998c: 18). This also holds for developing countries. Due to structural shifts, the organization and distribution of finance are increasingly decided internationally. That is to say, developing countries are increasingly touched by the highly political effects of the international financial structure. This is nowhere more visible than in the so-called "debt problem".

Financial Structures and Development

> *«The great difference between an ordinary casino which you can go into or stay away from, and the global casino of high finance, is that in the latter we are all involuntarily engaged in the day's play»* (Strange 1986: 2).

This also applies to developing countries. It is a mistake to think that a country is unaffected by global finance just because its financial markets are barely emerging, its foreign debt is low, or because its citizens live a life which seems far removed from the life of financial operators who channel trillions of dollars through globally integrated, deterritorialized capital markets. Such countries are not observers who, from a safe distance, watch fortunes being made and destroyed. They are involved, and more vulnerable to international financial structures than most of their rich counterparts.

The links of developing countries to international finance have a number of implications: (a) their exchange rates (if their currencies are convertible), their interest rates (if the capital account is open) and more generally the terms on which they can raise credit are directly tied to the overall system. For instance, a decision by the United States to raise interest rates will alter the relative attractiveness of their currency, of their government bonds and of the shares their *firms'* trade on the market; (b) they are affected by the increasing volatility and instability inherent in the international system. A crisis in Mexico will affect Turkey, Argentina or Malaysia even if there is no perceptible change in policies and no change of economic 'fundamentals'; (c) their 'internal' institutions are shaped by the empowering and disempowering effects of the international financial structure. Private, mobile, capital holders are strengthened (see also Frieden 1991). They can raise and earn money internationally. They can escape the (ever weakening) grip of the state that can neither force them to pay taxes nor control their doings. For example, an adequate explanation of the Korean state's loss of control over its *chaebols* (industrial groupings) should include (among other things, of course) the effects of opening up to international financial markets in. the 1990s (Amsden and Euh 1993).

Strange would argue that international financial structures have particularly strong and skewed effects on the poor and on institutionally weak developing countries: their decisions about interest rate changes do not matter and they are unlikely to be consulted about the interest rate changes in countries where it does matter. Instability and crisis originating elsewhere is also more likely to touch them: financial market actors are likely to be less confident about the prospects of their economies and financial markets and hence more likely not to engage themselves and

keep the option of quick withdrawal open. Finally, the impact of financial structures on national institutions is likely to be all the more dramatic as poor and underdeveloped countries are likely to have the weakest national institutions (firms, banks, states, political parties, organized interest groups and civil society). In Strange's view, developing countries are not only involuntary players, but also recurring losers.

So why do developing countries not leave the system? The answer refers back to the claim, that because of structural change, opting out is no longer an alternative, or at least it is increasingly less of an option. Production is ever more technology-intensive. Low wages are no longer enough. Investing in technology becomes all the more important. This creates incentives for the opening up to international finance as one way of raising capital. Moreover, development increasingly depends on buying international technology and know-how or cooperating with firms that possess these. In return, these *firms* demand a promising business. This usually includes operating under liberal policies on finance. Local business usually supports their demand since they, too, increasingly have to compete on international terms. Furthermore, access to the markets of developed countries, also crucial for development, is often conditional on opening the country's own economy, including the service sector (banking and finance included, as reflected in the General Agreement on Trade in Services (GATS)). Finally, international financial institutions, private and public, demand the opening up of financial markets as a counterpart for confidence and further extension of credits (though there is no guarantee that liberalizing will be enough). Consequently, the offer of opening up to international finance is one that most countries cannot and do not want to refuse.

Developing countries tend to be caught in the uncomfortable situation of playing a game, which certainly offers some gains but in which, on the whole, they are recurring losers. Leaving it is neither more attractive than staying in nor likely to be feasible.

The Politics of Debt

The skewed impact of the international financial structures is nowhere more visible than in the impact of international debt. Overall, the debtors have borne the costs of the 'debt problem', including when this problem was largely caused by the non-regulation of international credit. However, the effects of this have been very unequal. While some newly industrializing countries (NICs) have managed to use international private finance to their advantage, the poorest debtor countries have fallen into a debt trap.

In contrast with the manner in which lending within national economies is handled, the international debt problem is dealt with in an ad hoc, case-by-case fashion. In most national economies legal procedures regulate bankruptcy and forbid usury and private enforcement of debt repayment. In the international system, no overarching authority could impose such regulations. No agreement is in sight on what the content of an international bankruptcy and lending system would be. Nor is there much enthusiasm for the creation of such a system. Strange argues that it would damage the illusion of sovereignty (1998c: 98): 'Pragmatically, creditor governments since 1945 have followed the same strategy [as Palmerston in 1848] of leaving undecided what punitive measures would or would not be applied against foreign defaulters on transnational obligations' (ibid.: 99).

'Pragmatically' clearly means that who takes what share of the cost, and what

kind of ‘punishment’ is imposed on the debtor, is a matter of what is feasible in view of the relative ability and influence of the creditors and debtors. This, in turn, to a large extent reflects the empowering and disempowering effects of international financial structures.

Indeed, the debt crisis closely mirrors the system effects of international finance. Developing countries have borne the costs of debt problems that were often not home-grown. Strange considers issues like imprudent lending, developed country trade and investment policies, US interest rate and exchange rate shifts, contagion effects and the increasing volatility and instability of international finance to have been crucial ingredients in the recent debt crises (1982, 1994. 1997). Nevertheless, repayment has been the rule. Rescheduling, debt swaps, write-downs and so forth have not been designed to provide developing countries with the equivalent of a bankruptcy option. Rather, these alternatives have been created to uphold the illusion that a debt crisis is solved and that there is no threat to the overall system. Similarly, to the extent that the debt burden has been borne by creditors, it has been shifted from private to public ones, reflecting the growing strength of private actors. Whereas part of the costs of the 1982 Mexican crisis ultimately fell on private bankers (through the bank contributions to the 1983 rescue package and the 1989 Brady Plan), in 1997 the United States took the lead in getting other governments, the World Bank and the Asian Development Bank to put up most of the funds (Strange 1998c).

The ever more stringent and far-reaching (structural) IMF adjustment programs are perhaps the clearest illustration of the weak position of the debtors. These programs do not reflect the priorities of the debtor. The IMF ‘rescue packages do work as antidotes to the virus that could attack the global financial system. They do not necessarily cure the carrier of the virus — the indebted country’ (ibid.:111). Moreover, they may be perceived to wreak long-term development. Thus, in Mexico, ‘a spontaneous protest movement grew rapidly. It called itself *El Barzon,* referring to the strap that held an ox under the yoke - as Mexicans felt themselves held in the yoke of foreign debt (Strange 1998c: 99). Finally, and by implication, there is an obvious risk that debtors are forced to follow whatever economic theory is the fashion of the day, often to their detriment. Thus, ‘while the IMF’s empire may be growing, it would be wise as an institution to beware the hubris of its own experts’ (Strange 1998b: 112).

However, it would be misleading to place all developing countries in one basket. The increasing disintermediation of international finance and the corresponding growing importance of private actors have affected countries very unequally. Thus Strange argues that, ‘unlike in the 1980s, there was no general “debt crisis” in the 1990s’ (ibid.: 121). While many NICs rely extensively on the ‘more mobile, less vulnerable insurance and pension fund managers and other portfolio investors’ for international credit,[4] the poorest countries receive virtually no private funds. Private creditors have ‘lost confidence’. Public, notably multilateral, creditors have stepped in to take their place, often with the aim of allowing private creditors to leave without losses. By following this strategy,

> *the Bank and the Fund actually created a debt trap even worse than the one they purported to remedy. What happened was that multilateral organisations in the aftermath of the debt crisis of the 1980s lent debtor governments new money to pay off or reschedule private or bilateral debt. But the terms on which this money was lent were much harsher and the sanctions against non-payment much stricter than for the debts they took over. Then between 1986-88 the IMF started withdrawing*

funds from debtor countries, exacerbating the effect of commercial withdrawal. Similarly, the World Bank started taking more money from the debtors than it lent them for old and new projects. (Strange 1998c: 106)

The result is bleak development prospects. In the 1990s, the amount the poorest African debtors spent on servicing their debts to multilateral institutions was higher than the amount they spent on health, basic nutrition and education (1998b: 114). The foundering of political initiatives[5] to deal with the situation again illustrates the very unequal say of countries when it comes to regulating international debt. The initiatives have been allowed to founder on the apparently insurmountable definitional issues (which countries, what conditions, which cost-sharing arrangements) and of course the fear of futility (these initiatives would not solve the problem) and perversity (moral hazard).

In sum, development is shaped by international finance. The provision of credit is crucial for investment and hence for growth.[6] Also the terms on which credit is given are increasingly determined internationally. For Strange, this cannot be accounted for once other factors have been considered (for example, the institutional setting and the strength of the state or factors of production endowment and the nature and distribution of capital). International finance *shapes* these factors. These general claims leave plenty of room for elaboration and, again, could fruitfully be tied into existing debates.

An obvious place to start is to develop in more detail how and why in given cases international financial structures have (or have not) shaped developmental paths, institutions and state policies. It is true that the literature on this issue is rather scant.[7] However, linking up with what there is would seem like a promising starting-point. Indeed, precisely because of the very unequal and varied effects of changes in international finance, it seems very important to specify the mechanisms of this influence and to develop a far more precise understanding of what any one country can do to control these mechanisms. The detailed case studies go some way in this direction.

Second, on the issue of debt, the most pressing issue is what can be done to regulate international finance in a way that is slightly less disadvantageous to the citizens of developing countries. On this *issue* there is an enormous amount of (usually specialized economic) work of which Strange is very critical. Evaluating work on the prospects of 'our international guardians' in regulating international finance, she first points to the 'sudden enthusiasm for self-regulation [which stems from the fact that] large internationally active banks found that regulators were often uninformed and wasted everybody's time'. Strange provides little in terms of solutions. She even seems to find it difficult to think about the issue. As so often, Strange the Keynesian political economist advocating international regulation is blocked by Strange the international realist who thinks that such regulation is impossible. She therefore limits her aspiration to stating the problem correctly. A crucial part of the problem is the privatization of power.

The Privatization of Power: the Changing Hierarchy of Actors

Strange argues that it has become imperative to study the role of private, non-state actors in shaping the fate of developing countries. These actors may always have been more important than was thought. Be this as it may, as a result of structural change, private actors are now absolutely central. As stressed above, private actors play a central role in deciding who gets credits on what terms and governments continuously

bargain (or wish they were in a situation to bargain) with them. But they also play a central role in most other areas of international political economy. If politics is not only about what states do and international politics not only about security, taking private actors seriously becomes unavoidable. This point is illustrated below through the elaboration of the link between structural change and the evolving role of two private actors in developing countries: firms and organized crime.[8]

The Role of Private Firms: on the Politics of Production

For Strange, one of the key changes of the past two decades has been the globalization of production and the related change in relations between developing countries and foreign investors. Strange believed that development prospects, as well as internal institutions and 'state capacity', are now largely shaped by firms and that firms therefore have to be at the heart of any serious analysis and explanation of economic development.

This evolution is due to the internationalization of production. It is not only possible but also necessary for firms to compete according to international standards. This does not mean that firms produce or sell everything everywhere, nor has it erased national imprints from their strategies, internal structure and management/ownership. The argument is that, as markets are increasingly integrated, firms are forced to compete on international terms, even in their home markets (1998b). They rival each other for international market shares. Finally, their production and marketing networks are extended as they strive to lower costs and obtain greater flexibility.

Simultaneously, a 'new dependency' is emerging. Firms possess the technology and know-how needed for development. The marketing and production networks of multinationals are often the *sine qua non* of market access. Consequently, it is harder than ever for poor countries to be truly independent of the capitalist world economy

> *But dependency is no longer equated with the relegation of local labour to menial tasks in the fields or the mines (...) The foreign firm has not only proved that it can be an engine of growth — in incomes, in jobs, in exports, in skills — it is also perceived as such.* (Strange 1996: 49)

According to Strange, the change at the level of private firms and in their strategies explains why so many countries have developed rapidly over the past two decades despite the predictions of "most economists, most governments and most bureaucracies" to the contrary Thus Strange argues that firms,

> *and not government aid programmes, were going to accelerate the modernisation of developing countries. Sometimes it has been done by the sale of patent rights, more often by the licensing of patented technology, by joint ventures with local firms, and by strategic alliance in which the TNC offers quick dependable market access through its established brand name or through its distribution networks of dealers and retailers. (ibid.:* 59).

The opportunities may not be sufficient to narrow the North-South gap. For instance, Strange believes that it is virtually impossible for the South to get a foothold in the service sector that is increasingly important for economic growth.

Strange argues that foreign-owned firms set the parameters for 'internal' politics of development and shape 'national' institutions.

Two examples will be used to illustrate the point: labor relations and taxation. Labor costs are plainly visible and easily compared and, consequently, important in determining foreign investment location. The mushrooming of 'export processing zones' which exist precisely because they allow foreign-owned firms to avoid national regulations (including taxes and labor market rules) is one of many illustrations of how developing countries have rushed to accommodate the (often unarticulated), demands of foreign *firms.* However, governments also adjust internal labor relations. Foreign firms usually look at militant and politicized unions as a threat to the stability of their own operations and to the political stability of a country in general. Consequently, 'most states tend to oscillate between exclusionary, repressive policies, and attempts to incorporate the labour movement in the official political and administrative structure' (Stopford and Strange 1991: 198). Overall, Strange believes that, de facto, a growing share of labor relations is regulated by firms and not by the state, and therefore 'firms just like states can be conceived as social institutions for the co-ordination of potentially conflicting interests' (Strange 1996: 60).

Second, it has often been argued that globalization makes it more difficult to raise taxes. Firms can threaten to relocate their production and/or make their investments elsewhere if the costs are too high. Taxation is a cost that is easily visible and manageable and therefore subject to bargaining. The consequence is that governments courting firms (local and foreign) find it difficult to impose, not only corporate taxation, but, more generally, any tax that will increase the costs of firms. This, of course, also concerns social contributions and income taxes which will show up as part of the real wage in the firms' calculations. A second, less well understood, aspect of the tax issue is the role of firms as 'tax-gathering organisations' (ibid.). Firms gather 'taxes' when they receive exemptions from tax payments in various forms and thereby are allowed to distribute internally and internationally the gains from taxes. Internationally, firms often get tax exemptions for costs they have had abroad (for example, for the payment of royalties, import duties, legal costs and even bribes) and this is a way of distributing the money of taxpayers in one country to the government in another one. Similarly, firms distribute tax income on the national level when they are exempted from paying taxes on the fringe benefits of their employees (most concerned are owners and managers) or on charitable donations (funding a private school or university or a newspaper). Obviously, both 'national' and foreign-owned firms in a country engage in this kind of redistribution. It could be added that the increasing clout of top-level management puts pressure on countries to allow this kind of indirect tax redistribution, since income payment on top salaries and deduction possibilities for fringe benefits become major factors determining location (Strange 1996).

The Mafias: on the International Politics of Diffusing Authority

> *Like transnational enterprises, organised criminal gangs — mafias, for short — have been around for a long time. Neither is a new phenomenon. Yet in both cases, what is new is their number; the expanding extent of their transnational operations; and the degree to which their authority in world society, and in the world economy, rivals and encroaches upon that of governments.* (Strange 1996: 110)

These are the opening lines of a chapter on the role of organized crime in

world politics. The general thrust is that, as Mafias become internationalized, the balance that existed in many places between states and Mafias is unsettled, to the advantage of the latter. For many countries, the new authority acquired by organized crime is profoundly reshaping the (non-)possibilities of development and growth. Organized crime becomes the political authority which decides what is done where and on what conditions. More than a state, it is organized crime that determines the path of economic development. This may apply to rich as well as to poor countries. However, the process has often gone further in poor countries, where organized crime is openly at war with the state and/or threatening to take it over from within. Cases in point are Colombia, Sudan, Afghanistan and Russia. The point that Strange makes is that accounts of development have to remain open enough to leave space for this influence where it counts and to see that organized crime is not a national phenomenon. Even if we talk about the Russian, Ukrainian, Colombian or Italian Mafia, the success of these organizations is intimately linked to structural shifts in the international political economy.

Organized crime has thrived off the magic of the international market. International demande for the goods and services provided by organized crime has grown rapidly. Drugs are part of the story.[9] However, as Strange points out, only 40 per cent of money laundering done through international banks is thought to come from drug deals. The rest is accounted for by the profits from other kinds of illegal trading — in arms and nuclear material for instance — and tax evasion (1998b: 124). On the supply side, structural shifts have made alternative activities relatively less profitable. Thus Strange does not hesitate to draw a direct link between the fact that 'developed countries had steadfastly refused UNCTAD pleas to apply the principles of agricultural support and protection that they used at home to support and protect export crops produced by developing countries and the fact that many farmers turned to growing illegal crops instead (Strange 1998d: 15). Of course, precisely how the link between supply and demand works is bound to depend on what particular good or service any Mafia provides. It is possible to contrast drugs with trade in arms or paramilitary services. Strange's point is that, more often than not, today, supply and demand are no longer determined exclusively, or even mainly, within the confines of the nation state.

In addition to this, the increasing clout of organized crime in development is attributable to the operation and (non-)regulation of the international financial system. This system makes it possible to launder dirty money with relative ease. Using transnational banking services and the rapidly growing numbers of international tax havens has provided organized crime with an easy escape route from national controls on the origin of funds, and correspondingly weakened the grip of states. Thus Strange points out that it is no coincidence that major tax havens are situated at the crossroads of the principal routes of the illegal narcotics trade or close to major financial centers (see also Palan 1998). Moreover, she argues that there have so far only been feeble attempts at regulation, partly because banks resist regulation which would make them act as 'policemen'. For all 'dean' business, clients need to trust the bankers' confidentiality. A bank reporting suspicious funds would merely lose its clients to more tight-lipped banks.[10] Attempts to regulate also remain feeble because many states and state officials have an obvious self-interest in preserving the role of transnational banks in facilitating and blurring the traces of white-collar crime and tax evasion. Last, but not least, the assumption is that the state is still dealing with professionals who have integrity of a special kind:

> *The ideational sources of the permissiveness [of the international banking system] lie in the ambivalence of capitalist systems toward the 'learned professions'. This permissiveness allowed bankers and accountants to share with priests the privileges of client confidentiality. Banks and tax havens have exploited this privilege, and in doing so have punched a big hole in the governance system of international finance. (Strange 1998d: 15)*

This section has shown that private actors (Mafias and firms) play an increasing role in determining development and that the reason for this is largely structural change in international political economy. However, it is clear from both examples that, by repeatedly trying to drive home this argument, Strange is raising as many questions as she answers.

There is an obvious need to ask questions about and clarify exactly the nature of private actor iniluence in different countries and different sectors, as well as what allows us to explain the differences. In part this makes it necessary to develop links between work on developing countries and specialized work on private actors. This is the sense of Strange's repeated call for an integration of business and management theories. Of course, the integration is already extensive. In fact, there is considerable work on different private actors, including international ones, in or in relation to developing countries. Strange herself draws on this work, particularly in *Rival States, Rival Firms.*

Moreover, the argument raises fundamental questions about politics. Strange points to the obvious question of the extent to which private firms can fill functions formerly filled by the state (education, health care and taxation for example)? More generally, the evolving role of private actors raises the question (dear to scholars in institutional economics and comparative political economy) of what happens to corporatist relationships and more broadly to state autonomy and the range of policy options in a context where private, often foreign, actors play a growing role (Evans 1995; 1997). This issue brings us to the last section of this chapter.

The Paradox of Defective States: on the Primacy of Understanding the State

> *I am not arguing that states themselves are obsolete. Collectively they are still the most influential and therefore critical source of authority in the world system. But they are increasingly becoming hollow, or defective, institutions. To outward appearances unchanged, the inner core of their authority in society and over economic transactions within their defined territorial borders is seriously impaired. They are like old trees, hollow in the middle, showing signs of weakness and vulnerability to storm, drought, or disease, yet continuing to grow leaves, new shoots, and branches. Some are clearly more defective in terms of their ability to play their roles in society, further advanced in decrepi-tude, than others. (Strange 1995: 57)*

The role of the state in developing countries is not neglected in the literature. It is poorly understood, according to Strange. Claims to sovereignty and authority over the economy and society are taken at face value. As a result, we do not understand the problems facing developing countries, nor do we seriously discuss potential solutions. Yet sovereignty claims ring increasingly hollow and this is particularly true of developing country states. This is *not* the same as saying that the state has no role to play in development. On the contrary, the state has a crucial role to play. The implication is rather that the issue of how well the state *can* play this role deserves serious attention.

The general argument that state authority is increasingly problematic, particularly in developing countries, flows directly from the arguments that have been presented above. But it may be useful to draw together the parts of the argument at this point. The developmental path, the nature of national institutions and politics, and the growth prospects of developing countries are increasingly determined at the international level, by international finance and by private actors. As a group, developing countries have lost out in this process to states who benefit from the working of the system and who (partly as a consequence) have an influence over how it is (not) regulated, as exemplified by the debt problem. To paraphrase Strange (1996: 189): power has (a) shifted upwards from weak states to stronger ones with global or regional reach beyond their frontiers; (b) shifted sideways from states to markets and thus to non-state authorities deriving power from their market shares; and (c) has evaporated, in that no one is exercising it. The last point bears repeating: the loss of authority is not zero-sum: 'What some have lost, others have not gained. The diffusion of authority away from national governments has left a yawning hole of non-authority. Ungovernance it might be called' (ibid.: 14). The result is that many, perhaps most, societies have to be content with the mere appearance of autonomy, with a facade of statehood.

The claim that the state as an institution has been weakened does not imply that the state does not matter. Strange, paradoxically perhaps, believes the contrary to be true. For developing countries, it is absolutely crucial to have well functioning states. Strange is convinced that markets will not, on their own, distribute resources to further development. She therefore believes that 'small poor countries cannot afford the luxury of letting market forces determine outcomes' (Stopford and Strange 1991: 8). An effective state is a precondition for attracting foreign-owned firms and creditors and for making good use of their presence.

Strange would hasten to add that the nature of effective state intervention has changed, too: it is no longer about governing business (or markets) and bargaining, it is about offering business collaboration, stability and favorable conditions.[11] Consequently, for Strange, the increasingly troubled nature of state authority in many developing countries seriously impairs development; it hampers the emergence of effective national and international economic regulation. It may even engender a vicious circle whereby the weakness of state authority deters creditors and foreign investors and leaves private actors (Mafias, terrorists, tax-evaders) unchecked, which in turn further weakens state authority. Moreover, the weakness of state authority makes arriving at effective regulation unlikely and arduous. It increases the problems of developing countries in facing the 'opposing phalanx of rich, aid-giving industrialised countries who either stonewall their demands for more aid or for preferential trading arrangements, or fob them off with empty symbolic gestures' (ibid.: 52). The lack of economic and political credibility in many developing countries curtails their ability to propose, let alone impose, regulation and reform proposals. Moreover, it makes implementation of any international regulation that can be agreed upon increasingly difficult as governments lose their grip on the private sector that is often the object of these regulations (Strange 1996: 190; 1998b: 141).

Strange points to two possible escape routes from this situation: one is that of state alliances where Japan and Europe would ally behind, initiate and impose regulation, with developing country support wherever possible. The second escape route is that of 'negarchy' or, in other words, the limitation and constraining of arbitrary authority, by non-compliance (Strange 1996: 197). However, it is most likely that neither road will be taken.

The picture that Strange paints of the state's role in development is discomforting. She is both telling us that the state has a central (albeit changed) role to play in development and that it is decreasingly (albeit unequally) capable of filling this role. On the one hand, Strange the Keynesian would seem to be on the side of those 'statist' or 'institutionalist' writers who argue that the state has a central role to play since markets will not on their own bring development. On the other hand, Strange the IPE scholar finds the idea most 'statists' have of the state's role in the economy anachronistic. It ignores the extent to which economies are tied to world markets and policies have to be correspondingly adjusted. The strategies Strange advocates for developing countries are close to neoliberal ones, in that she persistently points to the virtues of openness to trade and foreign direct investment, even if she (like many liberals) is very critical of the claim that openness to short-term financial flows is good or necessary. Strange is also critical of statists for thinking of the capacity of the state to carry out policies as determined by national institutions. Not that she would appreciate it if her work became a foil, justifying or distracting attention away from corrupt practices with the shallow excuse that it is all the fault of the international system. However, avoiding Scylla is no reason to steer straight into Charybdis. For Strange, the 'Asian exceptionalism' is tied not only (or even mainly) to a set of national institutions and a form of embeddedness but to a specific historical period where cold war politics determined the conditions on which these economies received market access, foreign direct investments and finance. With the end of the cold war, this exceptionalism comes to an end, as does the Asian 'state-led' miracle (ibid.: 7).

Discomforting as it may be, this argument suggests a number of very important questions. A first set concerns the extent to which the state in general, as well as the state in given developing countries, has actually become 'defective' and hollow. Indeed, Strange insists that the loss of state control over social, economic and political life is very unequal; while some are increasingly akin to no-go grey zones, others have lost control in the same way as developed countries have lost control. For any one country it matters what kind of loss of control one is talking about. It matters for what policies are realistically part of the options from which the state can choose and it matters for the prospects that any kind of policy will be effective.

This points directly to a second set of questions: what development strategies are feasible? Developing countries today are being pushed to adopt strategies which have never been tried before and which even those advocating them are not adopting. They are asked to allow foreign owned firms and banks to control the bulk of their economy and to have the state act essentially as a 'host for firms' (Stopford and Strange 1991). The question is of course whether this unorthodox strategy has any chance of working and what its long-term political implications are.

Finally, there is the issue of what happens to democratic politics in a world where private, often foreign, actors make a very significant share of the decisions and where the state makes it an absolute priority to cater for business needs (Held 1991). Authors in IPE have argued that the result is likely to be a more authoritarian or restricted form of democracy (Evans 1997, Gill 1997). However, Strange partly dodges the issue. According to her, we feel uneasy about this for personal reasons. We share 'Pinocchio's problem' of what to do once the strings which provided certainties about our political identity and loyalties are cut and we have to decide for ourselves:

> *If indeed, we have now, not a system of global governance by any stretch of the imagination, but rather a ramshackle assembly of conflicting sources of authority, we too*

have Pinoccio´s problem. Where do allegiance, loyalty, identity lie? Not always, obviously, in the same direction. Sometimes with the government of a state, or with a social movement operating across territorial frontiers. Sometimes with a family or a generation, sometimes with fellow members of an occupation or a profession. (Strange 1996)

However, we probably also feel uneasy about this because the 'ramshackle assembly of conflicting sources of authority' makes it uncertain how much it matters in the first place where our allegiance lies, if democratic institutions can be established or sustained and how influential democratic policies can be. The key question is whether or not democracy can survive the reshuffling of authority and identity tied to globalization.[12]

Conclusion

This chapter has argued, with Strange, that structural shifts have made international structures, the politics of finance, the privatization of power and the problematic nature of state authority an indispensable part of any serious analysis of developing countries today. The chapter also underlined that Strange's argument that overall trends matter for developing countries leaves us with important and interesting questions about precisely how they matter, why they matter so differently and how their influence could be made more equitable.

Strange herself could certainly have done more to provide answers. The issue of how international structures interact with national ones is prominent in much work on developing countries, ranging from that of liberal economists to the present-day heirs of dependency scholars, passing by the work of so-called 'constructivists'. Similarly, there is extensive writing on why some institutions, countries and social groups are empowered and disempowered by international changes and why they are better at dealing with them. Finally, on the issue of reform prospects, there is extensive work in 'liberal' and institutionalist approaches in international relations (the fundamental issue of when conflict is possible) as well as in economics.

So why does Strange not do more to provide answers and to link up with this work more extensively? A specific answer is that her contradictory convictions and interests often prevented her from doing so. Strange the Keynesian political economist believed that international economic regulation was absolutely necessary, yet was prevented by Strange the realist international relations scholar from seriously believing that such regulation was a possibility worth thinking about. 'Keynesian Strange' was convinced that (international and/or national) state regulation of the economy is a necessity. Yet 'British Strange' put her faith in civil society and looked at bureaucracies with distaste. Consequently, she oscillated between a plea for self-iegulation and a plea for (top-down) structural reform. Finally, 'Strange the scholar', who fought for the establishment of *international* political economy, found it very hard to engage with the work in comparative sociology or political economy which could have provided the details and nuances for her arguments.

More generally, there are obvious limits to the theoretical and empirical terrain that any researcher can cover and integrate. Strange's real contribution is an incisive empirical analysis, striking formulations, and an open-ended, though coherent, approach which allows her to develop our understanding of general trends and our capacity to raise questions. Indeed, Strange's unrelenting, often sweeping, academic theory bashing is not to be taken at face value. She has both a critical and a

constructive theoretical project. She spent much of her long academic life criticizing the normative and practical implications of 'bad theory' (Guzzini *et al.* 1993). Moreover, Strange was inordinately consistent about which ingredients of theory are indispensable. She even provides an 'anti-textbook' (1988) that spells out her approach.

This approach is applicable also to developing countries and many of Strange's arguments are about developing countries. The many open questions and overly general arguments should be considered as an invitation to further research. They should certainly not serve as an excuse for continuing to neglect Strange's work on developing countnes.

Notes

1. I would like to thank the participants in the IRES departmental seminar at the Central European University, Doro Bohle, Amy Verdun, Tom Lawton and, especially, Stefano Guzzini for their comments. Obviously, they do not share the responsibility for the results.
2. In fact, many — if not most — (ex-)dependency scholars would have no difficulties with the following n -deterministic claims and would draw similar conclusions.
3. Palma (1980) sees this as the key point of dependency.
4. Strange cites an estimate by Michel Aglietta to the effect that 90 per cent of the Mexican debt in the 1995 crisis was owed to non-official investors, including the holders of *tesobonos,* foreign fund managers and non-banks (1998c: 104).
5. Including the Brady initiative of 1992 to allow the poorest debtors to reschedule their debts and the IMF/ World Bank initiative of 1996 to write off part of the debt.
6. Strange is obviously not alone in stressing the central role of finance in development. Classical economics underlines the importance of insufficient savings and therefore insufficient possibilities to invest. Historians (for example, Braudel 1979; Gerschenkron 1966) point out the increasing importance of controlling and channeling finance in conditions of late development.
7. The bulk of literature on finance and development is focused on more narrow questions such as why countries liberalize when they do (see Haggard *et* a!. 1993: 3, fn2 for a list of exceptions).
8. The choice could clearly have been different: Strange also writes about firms and business in specific sectors (shipping, insurance and telecoms, for instance), about ect)nocrats', and about accountants as significant private actors. Also she refers to — but has not developed — the role of NGOs, the media and the international sports clubs in shaping international politics.
9. Strange quotes figures according to which the heroin market recorded a twenty-fold increase and the cocaine market a fiftyfold increase between the mid-19709s and mid-1990s (1998c:128).
10. Strange argues that one way *around* this difficulty would be to establish the equivalent of bond rating agencies (Standard & Poor, Moody's) for banks and to (somehow) make them reward the cleanest banks (1998c: 131).
11. In this she joins the many authors who write about the altered role of the state as a result of international shifts (for example, Cerny 1988; Dunning 1991; Evans 1995: ch.8).

12. Bauman, Beck and Fukuyama in a *Zeit* series (nos 46—9, 1999) on the future of democracy.

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