Globalisation and the "Paradox of State Power": Perspectives from Latin America

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Abstract:

The changes associated with the globalising international economy have had significant effects on the nature and functions of national states. Rather than being in a process of decline in both relevance and effectiveness, the state remains central to the study of IPE and to processes of transformation at the national, regional and global levels. The process of globalisation has created a situation which we can call the 'paradox of state power', in which the national state is simultaneously weakened and strengthened. In the Latin American case, the 'internationalisation of the state' was engineered very consciously by government elites as a means of using international constraints to overcome domestic constraints. As a result of the location of significant decision-making authority at the regional and global levels, and also as a result of the changing policy environment associated with financial globalisation, the policy-making options available to national governments were significantly diminished. On the other hand, the 'internationalisation of the state' provided precisely the conditions in which the state was able to recompose itself and recover its coherence vis-à-vis societal interests following the conditions of economic and political collapse which characterised the region at the end of the 1980s. In this way, state power was simultaneously weakened at the global level, as a result of the changing structures of rewards and punishments in the international economy, and strengthened at the domestic level as a result of the space created by the internationalisation of the state for the consolidation of economic and political reform.

Keywords: globalisation, internationalisation, convergence, state power, Latin America, crisis.

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In the bulk of commentary on the effects of the globalisation of economic and financial activity[1], the national state has been assumed to have withered or else taken a back-seat to global and national markets as the primary mechanism for the distribution of resources and welfare.[2] In this conception, states and markets are pitted against each other in a zero-sum game which, according to the dominant neoliberal orthodoxy, can only be resolved in favour of the latter if countries and governments are to achieve competitiveness and credibility in the globalised international economy. In addition, the battle for 'authority' in the international political economy has been depicted as a situation in which the state is losing ground to a variety of new, non-state, transnational actors such as financial agents, non-governmental organisations, firms, social movements and professional associations. Again, the image is one of a zero-sum situation in which the dispersion (and 'transnationalisation') of political and economic authority necessarily has involved the increasing redundancy of its traditional locus.

Such arguments, however, are increasingly being contested. Recent contributions to the IPE literature have been at pains to refute the idea that the state and its capabilities have withered as a result of global economic integration and the formation of non-state, transnational identities and activities. Similarly, the notion that globalisation has generated a harmonisation between national states in terms of policy preferences, expectations, welfare standards, cultural identities, and so on - the so-called 'convergence thesis' - has been challenged by analyses which identify significantly different development trajectories and policy strategies in regions and countries within the globalising international system.[3] Some of these accounts take as their starting points an observation of the composition of state and political capabilities in different regions or countries[4]; others the limits of the market and constraints on its 'power' in a wider sense.[5] These analytical currents collectively amount to a backlash against what has been termed the 'phenomenon of state denial' in recent IPE and political science.[6]

A number of different conceptual tools have been elaborated for the purposes of refuting the argument that the national state is becoming redundant, both with respect to governance at the domestic level and in terms of the action and interaction of agents in the ‘global’ arena. The most salient of these has been the notion of the ‘competition state’, which is discussed in a later section of the paper. This and related concepts seek to identify the ways in which the nature of the state, its capabilities and activities has undergone a process of change or redefinition rather than a process of deterioration. This paper aims to feed into such recent currents in the study of IPE and globalisation in two ways. The first is by addressing one of the major shortcomings of recent theoretical currents, namely a lack of empirical specificity. The theoretical literature does not, perhaps by its very nature, give sufficient attention what happens at the ‘sharp end’ of globalisation and the concrete ways in which its effects manifest themselves at the national level. The application of IPE perspectives to the case of the Latin American region has been particularly sparse in this respect.

Second, and more fundamentally, it offers a conceptual formulation which seeks to extend and tighten the somewhat imprecise metaphor of the ‘competition state’, which will be termed the ‘paradox of state power’. The argument runs as follows. On one hand, as global finance and transnational actors are increasingly dominant in international economic activity, states are seen to be controlled by markets and market-oriented imperatives. Both governments’ room for manoeuvre and the range of policy options available in the context of globalisation are vastly reduced, making impossible talk of ‘national’ economic policy or autonomous processes of policy choice. This is a result of a fundamental shift in the structure of rewards and punishments in the international economy as a result of globalisation. In this sense, globalisation increases the imperative of conformity with the new international policy agenda, and at the same time vastly increases the costs of non-conformity. The ‘internationalisation’ of the state[7], which results from both the effects of globalisation and purposive domestic policies, in turn removes policy instruments from the direct control of national governments. Policy reforms are ‘locked in’ by engagement with the agents of the globalised international economy (particularly the agents of international finance), the negotiation of binding agreements with international financial institutions, and the establishment of regional commitments.

In effect, *governments have very deliberately used international constraints to overcome domestic constraints*, characterised in the Latin American context by widespread economic crisis. Paradoxically, therefore, the 'power' of the state is enhanced by the same processes which are assumed to undermine its authority. By locating direct decision-making responsibility outside the boundaries of the state, or alternatively 'locking in' the economic agenda by the above means, the state has been able to re-compose itself and recover its coherence vis-à-vis societal interests. In the Latin American and other contexts, this has translated into a recovery of state strength and possibilities for centralised government with enhanced policy-making capabilities. Thus, the state becomes simultaneously more and less 'powerful' under the impact of globalisation: policy-making autonomy in the international arena diminishes as a result of globalisation, but as a direct result of this its strength in the domestic arena increases. This is the essence of the 'paradox of state power'.

The empirical observation of the Latin American region thus gives substance to the contention that 'state denial' is indeed a 'fundamentally Anglo-American institution' which, moreover, has been over-generalised in globalisation theory.[8] Despite the vulnerability of Latin American countries to changes in the global economy and the activities of the international financial institutions, the process of policy-making and the mode of social organisation in Latin America remains in most cases still highly statist in nature, and political power significantly centralised. The development project, which has come to rest firmly on engagement with globalised economic and financial activity, remains dependent on the institutionalisation of certain policies and structures by means of state and government action. Although unfashionable, the study of the state therefore remains fundamental to an understanding of contemporary Latin American political economy, and to the study of IPE and globalisation more generally. The 'paradox' thus feeds into recent revisionist literature which challenges the relegation of the state in IPE and also the retreat of the state in empirical terms. By using Latin American countries as case studies of dominant theoretical and empirical contentions, we can move towards a more detailed and nuanced understanding of each.

Conceptions of state power

A few words are in order first concerning conception of 'state power' on which the analysis is constructed. The argument is not concerned with conventional definitions that refer to the maintenance of territorial security and other dimensions of strength associated with the exercise of foreign policy. Rather, the argument works with a conception of state power that operates on two levels. First, state power is formulated principally in terms of *the capacity of national governments to implement their policy preferences*. In this way, state power is conceptualised from the perspective of the effectiveness of governments and the state apparatus more generally in formulating a set of defined interests and implementing the policy corollaries of these. This conception, crucially, does not make any *a priori* assumptions concerning the origins or nature of those interests and preferences. As such, it does not subscribe to the notion that the state has its own discrete set of interests which is fundamental to the 'state autonomy' approach favoured in 1980s political science. The state's implementation capacities are not necessarily directly related to the nature or origin of its policy preferences. The conceptualisation of state power in terms of implementation, therefore, relates directly to assessments of the effectiveness of the state in implementing its policy preferences, which is quite different from the concept of autonomy.[9]

On the second level, state power is conceptualised in terms of the degree of *centralisation of political power*. In other words, state power is understood to refer to the extent of the state's insulation from societal groups or interests. This is useful in clarifying the ways in which the present argument seeks to dissociate itself from traditional state autonomy theory and its conceptualisation of the state as a unitary actor. In practical terms, in most Latin American cases, this notion of autonomy as insulation is directly linked to the first conception of power concerning the state's capacity for policy implementation. This is not directly conditioned by the level of responsiveness of the state to societal preferences. The centralisation of power does not inevitably suggest a disjuncture between the interests of the executive and the interests of the electorate, and the high levels of popularity achieved by most neoliberal reforming presidents or governments in Latin America in the early 1990s indicates that often these interests are compatible even in a situation of insulation or state autonomy. Cases in which there has been extensive resort to executive decree and veto powers, notably Argentina and Peru, raise interesting questions about the democratic credentials of the systems in question, but also point to additional issues in the consideration of state and government 'capacities'. It should also be remembered, particularly in the Argentine case, that although taken to extremes by the Menem government the practice of vetoing and decreeing legislation has long been entrenched in political practices, always accompanied by high levels of instability and ungovernability, and extensive penetration of the state apparatus by societal interests.

To further clarify this point, the emphasis on insulation and centralisation is not intended to stand in opposition to the ideas of 'embedded autonomy' developed by Peter Evans. The relative degree of discretionary latitude enjoyed by a particular government at a particular time is indeed a measure of the autonomy of the state from societal pressures or influences. This does not suggest a situation in which states are 'disembedded' from societies they are assumed to represent. According to Evans, successful state involvement in processes of industrial transformation - which we could expand to refer to processes of neoliberal reform in Latin America - requires, to a greater or lesser degree, an 'apparently contradictory combination of corporate coherence and embeddedness'.[10] In other words, the state requires both a degree of 'internal strength' and a degree of 'embeddedness' in societal structures in order effectively to manage processes of economic change. The idea of 'autonomy' introduced above refers crucially to a situation in which the state's policy-making activities are not significantly hampered by the obstructive behaviour of societal or other non-state actors, and does not, in our conception, refer to a situation of 'disembeddedness' or of isolation from societal influences.

In the context of various Latin American countries, this point can be illustrated with reference to the veto power exercised by the military and labour during the post-war period, which has been effectively dismantled by the neoliberal governments of the 1980s and 1990s. However, the abandonment of the corporatist nature of interaction between state and societal actors does not imply an ‘insulated’ state, but rather a situation in which the state has acquired the capacity to implement its preferences without the obstacles such interests formerly imposed. It is possible to argue, furthermore, that neoliberal governments in the 1990s have merely substituted the incorporation of certain interests (notably labour) for the cooptation of others (notably business and the private sector). In some cases, such as Argentina, labour-based governments have been able to effect such changes in political and economic structures without losing their original power base: the disarticulation of labour has not translated into a loss of workers’ votes in the electoral arena.

To place these observations in the theoretical context of the present discussion, then, it is the contention of the present paper that an important neglected dimension of the study of state power concerns the impact of international change on both domestic policy choices and the political alignments that are created in order to maintain the new orientation. Paradoxically, although the policy autonomy of the state is reduced in terms of the available feasible options, the strength or ‘power’ of the state, according to the two understandings outlined above, is enhanced as a result of engagement with processes of international change and its specific manifestations. As a result of the imperatives established by a globalised international economy, and the location of significant decision-making authority at the global and regional levels by governments themselves, the *implementation* functions of the government are strengthened and the space is created for a significant *centralisation* of political power. This outline demonstrates in more specific detail the mechanics of the ‘paradox of state power’.

The remainder of the paper is organised as follows. The next section deals with the first ‘leg’ of the ‘paradox of state power’, which refers to the narrowing of the policy-making latitude available to governments as a result of globalisation processes. It demonstrates the ways in which the imperatives for policy conformity have been seen to demand, and to generate, a notion of ‘convergence’ in the international political economy, which corresponds to an idea of homogenisation or harmonisation among states and institutions. The following section elaborates the second ‘leg’ of the paradox, by taking issue both with the 'retreat' thesis and with the 'convergence' thesis, and demonstrates in theoretical and empirical terms the continued centrality of the state in Latin America. It highlights the dynamics of the increase in the domestic 'power' of the state (according to the conceptions outlined above), and also the differential nature of state responses to global liberalisation in policy terms. The arguments are further bolstered by the present context of global economic crisis.

The first 'leg': policy conformity and the 'convergence' thesis

The first dimension of the paradox of state power contends that there are important ways in which the 'power' of the state (in terms of its regulatory and control capacities) has been reduced, largely as a result of the autonomous functioning of international markets. The process of globalisation has implied a narrowing of available and feasible domestic and foreign policy options for all countries, both as a result of the primacy of a neoliberal global policy agenda and as a result of a curtailment of the capacities of national states as a result of global and domestic restructuring. These trends appear to be particularly clear in the cases of 'weaker' states, most obviously developing countries which are, to a greater or lesser extent, constrained to toe the line with the policy prescriptions of powerful international financial and economic agents. This imperative for conformity can be traced to a fundamental change in the structure of rewards and punishments in the international economy as a result of the primacy of investment flows and the internationalisation of economic activity.

Such developments in the international economy and in the international policy community have been termed 'embedded financial orthodoxy'[11] which has been regarded as the successor to the system of 'embedded liberalism'.[12] In this conception, finance has become the lifeblood of the international economy and, by extension, an essential nutrient for growth in the national and international context. The predominance or 'hegemony' of international capital is seen to have a structural autonomy which carries far greater weight than states and in effect controls state actions. This feeds into the 'transnationalisation' debate which perceives the international economy to be dominated increasingly by 'non-state' actors (most obviously transnational corporations, non-governmental organisations and transnational social movements) rather than by states as traditionally conceived. The activity of these 'new' actors is seen to challenge state authority and state autonomy in policy making terms, creating a new international structure in which states and national boundaries are increasingly irrelevant.[13]

It may well be that the new hegemonic power in the post-hegemonic era is global finance. Even non-Gramscian analysis can appreciate that finance has probably become, or is well on its way to becoming, the foundation of the global economic system, or, in Cerny's terms, 'the infrastructure of the infrastructure'.[14] The rewards of liberalisation, both in economic terms and in terms of political capital, have become inestimable in comparison with the situation even a decade ago. International investment is increasingly driven and directed by risk assessment and credit rating, both of which are elaborated on the basis of orthodox economic criteria in keeping with the neoliberal orientation of the globalising world economy. In policy terms this is embodied in concepts such as the 'Washington consensus' and the policy prescriptions of international financial institutions. The state, in the post-Keynesian period, has become responsible for the 'unleashing' of market forces rather than for the organisation of the private sector through the regulatory activities of the public sector and interventionist government policy.[15]

For developing countries, these emphasise the importance of trade and financial liberalisation, in which the establishment of a favourable and stable exchange rate is key. Over-valuation reduces the competitiveness of exports in the international marketplace and the relative competitiveness of the export sector domestically. Growth is seen fundamentally to depend on eliminating the anti-export bias of former policies and on structural transformations in the economy that encourage productivity, driven principally by long-term investment. This equation of development with the policy prescriptions embodied in the Washington Consensus comes in Latin America after half a century of experimentation with development models that emphasised inward-looking strategies based on variations of the import substitution idea. Even institutions such as the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) that spent much of the post-war period emphasising ISI and closed regionalism have started to produce analysis consistent with the new international economic orthodoxy: titles of recent publications such as 'Policies to Improve Linkages with the Global Economy'[16] suggest a fundamental acceptance of the proposition that the realistic options for pursuing growth and development are increasingly few. For example, ECLAC states that 'to make sustainable changes in production patterns with social equity, the economies of the region must improve their linkages with the international economy' through a comprehensive package of trade, exchange rate, export-promotion and 'productive development and finance' policies.[17]

Reform in Latin American countries in the late 1980s and early 1990s was thus driven by the need to establish stability and the 'right' policy framework for the attraction of foreign capital. Virtually without exception governments, led largely by technocratic elements in policy-making circles, have moved away from inward-looking or heterodox economic strategies towards full-scale neoliberal restructuring of their economies. Countries like Argentina, Mexico, Chile and Peru have led the way with extensive privatisation processes, trade liberalisation, exchange rate stabilisation and financial deregulation. By 1994, Argentina had become the third largest recipient of FDI flows world-wide. Venezuela attempted to steer its own course for a significant time under President Caldera but eventually signed an agreement with the IMF when the economy became threatened with total collapse. Although the terms of the agreement were never satisfactorily implemented by the Venezuelan government, the symbolic significance of the deal demonstrates the point that an at least nominal conformity with the agents of global finance is required in the present global economic environment. Brazil is the only consistent exception to the general trend, in that it has attempted to maintain its emphasis on industrial policies in a context of limited liberalisation, but its present precarious macroeconomic condition perhaps further reinforces the argument that the punishments meted out to deviants have become far more severe in the era of financial globalisation.

The costs of non-conformity with the new policy ‘consensus’ seem to be the principal incentive for complying with the new rules of the game. It has been increasingly acknowledged, largely through bitter experience, that investment funds can flow out quite as quickly as in, and that gaining and maintaining international confidence has become the key to securing growth and solvency. The experience of the Tequila crisis in Mexico and Argentina, as well as the knock-on effects of the crises in Asia and elsewhere more recently, demonstrate both the nature of international capital and the continued elusiveness of sustained confidence in the majority of Latin American (and other) emerging economies. The behaviour of foreign capital in response to perceived risk in developing countries shows clearly that there is a very narrow range of options with which countries in the international system can manoeuvre. Similarly, at the domestic level the costs of non-conformity create a powerful justification for the implementation of such policies which has been used routinely throughout Latin America in order to ‘sell’ often unpopular adjustment measures to sceptical electorates.

The second ‘leg’: the reinforcement of state power

The policy prescriptions of the neoliberal agenda are, in effect, the ‘rules’ by which the game is played. The ‘game’ itself, however, is about the pursuit of international competitiveness, and conformity with the rules ensures that the game is played to maximum effect. As a result of globalisation, then, there has been a fundamental change in the *nature* of competition between states, which has involved the re-organisation of the state away from its more traditional ‘welfare’ function towards a role that can be classified as the pursuit of national competitiveness. The idea of the ‘competition state’ is characterised by two principal elements: (a) an overriding belief that national competitiveness is the means of achieving economic growth and improved living standards, and (b) a shift from principally demand-side to supply-side measures in governments' competitive policies.[18] In the terms used above, these would correspond to (a) the nature of the game itself, and (b) the (policy-based) rules by which the game is played. In broader terms, the traditional bases of the interactions of states in the international arena - that is, competition for territory or control over territorially-bound natural resources - have been superseded by a new competitive 'game' in which the rewards are world market shares. The corollary of this observation is that 'industrial policy and trade policy are becoming more important than defence and foreign policy'.[19]

From this preliminary conceptual starting point, it is clear that the argument that globalisation is associated with a dispersion of state power, especially in terms of the 'loss of sovereignty' to markets and to global and regional institutions, is not necessarily incompatible with a revitalisation of the state from a more 'national' perspective.[20] While the state may well be experiencing a withering of its existing competencies, the strategies of adaptation that it employs in order to respond to processes of change become paramount.[21] In this sense, the primary traditional function of the state - to mediate the effects of the domestic and global markets - remains intact, but the demands of this function and the nature of the task have been fundamentally altered by the processes of international change associated with globalisation.

In the context of the political and economic crisis of the late 1980s experienced by most Latin American countries, and particularly in Argentina, Peru and Mexico, globalisation provided precisely the conditions in which the state was able publicly to acknowledge the need to recompose itself. This can be seen in simple terms as an excuse (the 'blame it on the external' idea is long established in Latin America) for some of the less palatable aspects of reform or, in more sophisticated terms, as a means by which the state became able to redefine its relationship with society through economic and political reform. Most significantly, the impetus for change stemmed from a widespread perception of the breakdown of the state and its inability to manage the market, reinforced by the 1992 European monetary crisis and later the Mexican and Asian currency crises. In this way, the space was opened for a reconstruction of states' legitimacy and a recovery of the eroded bases of state power.

The devolution of some of the traditional aspects of state authority to transnational forces (whether international markets or intergovernmental financial institutions) can therefore be seen as directly in the interests of the state at the given time rather than as a measure that compromised these interests. The coincidence of interests between the state and the agents of the globalising international system opened the space for a constructive relationship between local and global sources of power. This possibility had not existed in Latin America at any time during the post-war period. Specifically, the external factors (such as the changing nature of international finance, the new development 'consensus' and the conditionality attached to loans from IFIs) acted as additional legitimating elements in the economic restructuring process and contributed an element of compulsion and necessity. These external factors were crucial above all in the 'consolidation' phase of reform in Latin America. The implementation of neoliberalism can be explained perfectly well with reference to the politics of crisis and certain changes in government structures (such as the introduction of technocrats and the establishment of so-called 'epistemic communities') at the domestic level. The consolidation of these reform efforts, however, owed a considerable amount to the international processes identified broadly as 'globalisation'.

It becomes clear, then, that Hirst and Thompson's argument in *Globalization in Question* that 'one key effect of the concept of globalisation has been to paralyse radical reforming national strategies, to see them as unviable in the face of the judgement and sanction of international markets'[22] is inaccurate, in that it assumes that radically reformist national policies go against the grain of economic globalisation. Hirst and Thompson's arguments appear to apply only to those countries in which a functioning market economy is already in place, and in which radical reforming national strategies would necessarily be in an opposite direction. In the case of Latin American countries, the radical reform process has been oriented in recent years towards the *construction* of a functioning market economy, through an extensive process of neoliberal reform, and for this reason has moved in a direction highly compatible with that of international markets. The economic policy revolution in Latin America is certainly 'radical', and indeed driven and facilitated by globalisation in the international arena.

In the context, therefore, of widespread political and economic crisis in a variety of countries, globalisation can be seen to have had a positive effect, at least in the short term, for those concerned with the reconstruction of state power. The term 'the rescue of the nation-state', borrowed from Alan Milward's analysis of the development of European integration, seems to be highly applicable.[23] In Milward's original formulation, the post-war reconstruction of European states was based on the perception that certain policy issues could be addressed better at the regional than at the national level, given the condition of the national settings in question and, in some cases, the nature of the issues. If we take this as a loose idea rather than an interpretation to the letter, it can be used to shed further light on the 'paradox of state power' and on the Latin American cases.

First, globalisation created the situation in which the state was able to pursue those reform strategies which would relieve the political and economic crisis in which it found itself embroiled, both by creating an element of external legitimacy and an impression of external compulsion, and also by offering a new basis for political and economic strategy at a time when previous development models had been exhausted. The costs of non-conformity, as mentioned earlier, are a powerful justification for adjustment. Second, the consolidation of neoliberalism and integration into the international economy entailed the 'internationalisation' of the state. As such, the conditions of state and economic crisis were alleviated through the removal of direct policy-making authority from the state to the globalised international economy and, in the case of the Mercosur countries particularly, to the regional level. In this way, the direction of reform and specific policy measures were accorded a certain 'irreversibility' as a result of their insertion into currents of international economic change. The Convertibility Plan in Argentina, by which the peso was pegged at a 1:1 parity with the US dollar and mandatory dollar backing required for the domestic monetary base, is a clear example: Economy Minster Domingo Cavallo's suggestions in late 1991 and early 1992 of modifying the exchange rate system were effectively vetoed by the hostile reaction of the markets to his proposals.[24]

The 'internationalisation' of the state thus served to 'rescue' it from the overwhelming constraints on economic policy and neoliberalism at the domestic level, which in many cases stemmed largely from political pressures on the policy-making processes. The clearest example of this pattern can be found in Argentina. Throughout the post-war period macroeconomic consistency was subordinated to political struggle between the state and corporatist societal interests, particularly labour and the military. Both of these groups exercised a significant veto power over the political process, the former through activism and militancy and the latter through frequent military coups. The threat of military take-over, more importantly, led to the relegation of long-term development strategies in favour of short-term political capital which would pacify belligerent political interests. By removing politics from the workings of the economy, then, neoliberal reform and the 'internationalisation' of the state also removed the potential for influence from the interests which formerly had stymied attempts at economic restructuring. In this sense, the policy-making arena in which these interests had formerly been active was eliminated through the removal of control from the state itself, and in this way its 'insulation' from societal pressures (according to the conception outlined earlier) was enhanced.

Moreover, globalisation generated a redefinition of the nature of state-society compromises as well as of the capital-labour nexus in both specific national settings and in a more global context. As global interdependence is deepened and expanded, the preferences of certain actors become both more decisive and also more congruent with the overall policy goals of the globalising political economy and reforming states (such as Argentina, Peru, Mexico and most other Latin American countries). As such, the weight and importance of actors with foreign ties is increased with the imperatives of constructing competitive transnational linkages, and the range of interests that are likely to benefit from the state's liberalisation policies expands.[25] The interests with foreign ties are likely to be business and the private sector, technocratic policy-makers and financial agents. The upshot is that the construction of a support coalition based on a nexus between the state and business is essential to the stability and survival of 'neoliberal democracy' in Latin American countries.[26]

Therefore, the effects of globalisation are principally to alter the constellation of interests and the nature of the support coalitions that governments need to court in the interests of international competitiveness and credibility. The changes in the international economy and financial system associated with globalisation act to significantly increase the influence and power of the forces that favour liberalisation in the domestic (and international) setting.[27] However, the imperative for the government to privilege business interests over, for example, labour, is reinforced by the dangers of not doing so. Globalisation acts to increase the mobility of capital and, as a result, the 'exit option' of the mobile capital asset holders in the domestic economy.[28] Having experienced the impact of capital flight, Latin American governments in the late 1980s and early 1990s, particularly, were aware of the need to take the interests and preferences of these economic and financial agents seriously.

More subtle manifestations of the political influence of globalisation can be found in the points made earlier about the international 'rescue' of the state, which entails the external 'locking in' of a set of neoliberal economic policies. Once these policy measures have been implemented at the domestic level, they are accorded an element of irreversibility as a result of the interaction between domestic and international economic priorities. The upshot is the eventual removal of direct policy-making responsibility from the state, and this has significant implications for state-society relations. In effect, the state is relieved of its role as the principal arena for social and distributive conflict. A removal of authority from the state with respect to policy-making autonomy means a removal of the capacity for influence of societal interests.

This is formulated in stronger terms by neo-Gramscian analyses of what Stephen Gill has termed a 'new constitutionalism'. According to this conception, the global system is dominated by 'a legal and political strategy for separating economic forces and policies from broad political accountability, securing management of the economy in the hands of central bankers and technocrats responsive to transnational capital'.[29] Similarly for Robert Cox, the 'internationalisation of the state' is seen to '[give] precedence to certain state agencies - notably ministries of finance and prime ministers' offices - which are key points in the adjustment of domestic to international economic policy'.[30] In the Latin American context, this internationalisation of the state as a cumulative result of recent globalising tendencies in the international system has translated into an increase in the 'power' of the national state by our standards of centralisation and insulation. In addition, states were able to redefine relations with elements of society which formerly had stymied attempts at coherent and consistent macroeconomic policy management and the construction of politically viable coalitions.

In sum, the 'rescue' or 'internationalisation' of the nation-state did not entail a comprehensive reduction in the power of the national state, as is often assumed in the literature. Here we return to the 'paradox of state power'. The functions and capacities of the state were propelled through a process of redefinition by the forces of globalisation and international change. Although the removal of direct policy-making functions from the state to the international (and regional) levels is manifest, this created the conditions in which the state could re-invent and strengthen itself at the domestic level, through a recovery of legitimacy and coherence and, as argued above, through an increasing insulation from societal interests. In this way, the state became able to pursue its functions in a situation of increased political stability, and to implement a set of preferences which, crucially, were entirely consistent with the 'interests' of the globalised international system.

More broadly, globalisation has the impact of weakening its opponents at both the international and national levels. This could be conceptualised in semi-structuralist terms which would perceive a long-term trend towards the weakening of those *societal* forces that are opposed to the interests of global capital. Hyperinflation and domestic economic crisis produced by the prevalence of these interests in policy-making circles (including the Alfonsín government in Argentina and the García government in Peru) in turn are destructive of interests hostile to globalisation. This, then, further explains the 'paradox of state power': it conflates the less autonomous state in international terms and the stronger state in domestic terms into a single logic relating to a damaging dysfunction between local and international sources of power.

Policy responses

The concept of the 'competition state' was presented above as one of the most recent attempts to classify what precisely is the 'new' role of national states in the context of globalisation. The discussion so far has identified the pursuit of development and of competitiveness as being closely linked to neoliberal reform in Latin American countries, and conformity with the dominant policy agenda throughout the world. The question that presents itself on the basis of the analysis so far concerns the *specific* policies that a 'competition state' becomes inclined or obliged to implement in the pursuit of national competitiveness. Again, domestic necessities and the orientation of the global arena intersect in order to produce an environment of compatibility between national and international priorities. The centrality of the state can be demonstrated clearly by the national variations in policy responses to the imperatives of globalisation, and also, more significantly, by the fact that not all of the measures were entirely consistent with the liberalising bent of contemporary economic reform. Argentina is a good example. Up to 1994, several ad hoc measures were implemented (such as Cavallo's application of compensatory rights against imports of footwear and clothing in 1993) which aimed to increase competitiveness. In 1994, similarly, it was generally thought that Argentina needed a mechanism for dealing with unfair trade practices. The National Commission for External Trade (CNCE) was established as an institutional structure for assessing and implementing such measures. Complaints to date have been mainly directed against Brazil and China, and particularly for dumping offences.[31]

The importance of specifically national adaptation strategies also become apparent in the context of the Tequila crisis of late 1994 and 1995, and the more recent crises in Asia and Russia. The Mexican crisis led crucially to an the unleashing of a significant debate or questioning of the relative advantages and disadvantages of the globalised international economy, which centred around a variety of perceptions in the countries affected on the necessity of adjustments in the global-national linkages. Remember that Argentina was the third largest recipient of FDI world-wide in 1994, although the effects of the Tequila crisis substantially reversed this position. The vulnerability of Argentina and other larger Latin American countries to external influences cannot be disputed. The Mexican crisis, however, may reasonably be seen as the start of the real *debate* on globalisation, as the 'Tequila effect' raised significant doubts about the desirability of globalised markets with minimal function for the state. What was interesting about the post-Mexico shake-out was the variety of policy responses pursued. While Argentina was hurrying to put in place safeguards such as reserves in the banking sector and to revise tariff structures, the diagnosis in Mexico was that neoliberalism needed to be deepened and expanded rather than reined in, and the response included measures such as a rise in VAT and promises to deregulate the banking sector and pursue privatisation with far more conviction.

More recently, responses to the Asian collapses and the spread of the crisis of global capitalism into Russia has strengthened this recent inclination towards atomistic, diverse and heterodox policy responses. Whereas in the aftermath of the Mexican crisis Latin American countries for the large part continued to rely on orthodox market solutions to market problems, the global crisis from 1997 generated a significant re-assessment of central policy tenets at the domestic level. The early evidence points to the emergence of more individualistic national agendas which reflect the differential experiences of countries: contrast, for example, the relative strength of the Argentine and Chilean economies with the serious difficulties in Venezuela and Brazil. These agendas are likely to be characterised by an abandonment of the dogmatism of the neoliberal discourse of the early part of this decade in favour of a more flexible approach to the issues of economic management, particularly in the short term. The

Chilean controls on short-term capital flows, Argentina's changes to the banking sector, devaluations in Colombia and Ecuador (and possibly in other areas as the effects of the crisis play themselves out) and fiscal and trade policy measures throughout the region have been devised on the basis of individual national interests with very little reference to any form of regional or global policy consensus.

The theoretical problem, then, arises with the empirical evidence which continues to demonstrate that despite the new rules of the game, national responses to global liberalisation (and the crises of globalisation) are far from identical. This is by no means a system which is operating in the automated manner that neo-classical economists may have liked to predict. In the report cited above, ECLAC goes on to state that 'there are, of course, no universally accepted valid paradigms for improving international competitiveness; the experiences of East Asia show that, although there may be a common denominator in the general approach, different paths have been taken in terms of the details of policy implementation, instruments and institutions'.[32] The variations in national responses to the challenges of globalisation are rooted in distinct institutional structures and historical social configurations of states and societies. These fundamentally condition the ways in which policy is formulated and implemented, but also the political task of constructing an alternative 'compact' between state and society which will reflect changing international and domestic circumstances and requirements. In Philip Cerny's terms, the common influence of globalisation is 'multilayered and uncertain'[33], and it is precisely the task of the nation-state to mediate this uncertainty.

The global crisis has perhaps exacerbated an already identifiable (and identified) potential for a 'backlash' against globalisation at the domestic level. This might have stemmed (and was in the process of materialising) from perceptions of the loss of policy autonomy and the deterioration of representative and participatory forms of democracy consequent upon the internationalisation of the state.[34] A further basis for this perceived 'backlash' concerns the deleterious effects of global financial liberalisation.[35] These perceptions in the Latin American context continue to generate support for policy measures such as controls on short-term capital (of the sort maintained by Chile), and also for new forms of opposition which emphasise both the management of globalisation and political agendas emphasising more socially responsive forms of government. Issues of welfare losses as a result of integration into the globalising international economy - seen particularly in unemployment figures - have come to dominate election campaigns and public opinion. Management of these issues is seen to depend on a revitalisation of state capacity at the national level, and a departure from strict adherence to neoliberal policy tenets.

In this way, the empirical evidence, particularly in light of the recent crises of global capitalism, appears consistently to argue against the convergence thesis and thus to demand a sceptical approach to some of the main currents in IPE in recent years. The process occasioned by globalisation is mistakenly seen as simply one in which the state is ‘retreating’ or becoming irrelevant, overtaken by the transnational forces of non-state forms of authority. Rather, the process is one of the reorientation of the national state, both institutionally and territorially defined. What is clear is that the condition and direction of the world economy in recent years poses a fundamentally new situation for governments that John Ruggie has termed ‘disembeddedness’. This is seen to manifest itself in three ways. First, the ways in which policy-makers ‘visualise the basic contours of their world’ are no longer completely valid and need to be modified to take account of new realities. Second, the nature of policy-making has changed so that ‘international as well as domestic economic policy targets are increasingly elusive because instrumentalities are no longer effective’. Third, globalisation has eroded the ‘state-society compact’ which sustained the post-war international economic order and its constituent policy environments. This observation is linked with the question of the ascendancy of the neoliberal ideology in the new global order.[36] Each of these elements is certain to be fundamentally reformulated in the light of global crisis.

Concluding perspectives

The 'paradox of state power' contributes to the theoretical and empirical literature on the development of the state in an era of the globalisation of economic and political interchanges. Other literature has focused on the issue of national sovereignty more directly, or else on the power balance between states and non-state actors, or else on more general issues of global governance. This paper sought to add another theoretical perspective and an additional empirical dimension to these ongoing debates. It offers a conception of state power which focuses on the states' policy-making capacity, particularly following instances of breakdown in its political and economic legitimacy or coherence. The case of Latin American countries in the post-crisis 1990s was used as an illustration. In effect, the increased engagement of such countries at the global and regional levels, the network of commitments and obligations constructed in these arena, and the surrender of a significant degree of policy-making latitude as a result had the paradoxical effect of 'strengthening' the national state at the domestic level. Crucially, this process of engagement was a result of purposive government strategies. This observation runs counter to hang-over notions that see such policy change as consequent upon the insistence of international financial institutions and the imposition of external preferences. While it is clear that governments had few feasible policy options available to them, the notion that neoliberal restructuring and increased integration at the international level were results of external obligation ignore important dimensions of the processes of change underway at the domestic level in Latin American countries, which generated the possibilities for a coincidence of interests between national states and the agents of the international political economy.

The role of the national state can therefore be approached in a number of different ways. Clearly globalisation has altered the ways in which states are able to exercise authority, and the dimensions of economic and social life over which they have meaningful control. Economic globalisation produced a marked reduction in both the regulatory role and capacity of states as a result of the processes of deregulation and liberalisation necessary for participation in the global economy. In this sense, the process of globalisation has produced a shift in the capacities of national states and in the nature of state power which amounts frequently to a form of 'governance without government'.[37] The point is that the *exclusive* authority of national states has been undermined by recent processes of global change, and that these states have been engaged in redefining their role and functions in accordance with the demands or opportunities posed by globalisation and, furthermore, in response to the development of new forms of authority and governance which are not directly linked to governments or states.

It is, therefore, misleading to see the forces of globalisation as essentially 'disembedded' from the state. New economic actors (whether firms, institutions or global markets) rely fundamentally on the survival and perpetuation of the state, as this is the only remaining enforcement mechanism available. At the very least, states are required to create the circumstances or conditions in which economic agents can act effectively. The new strategic and policy function of states may be best understood if we dispense with the assumption that a process which occurs in the territory of a national state is necessarily a national process.[38] The processes and results of globalisation may be inherently transnational in nature, but there is no necessary incompatibility between this and the argument that these processes of transnationalisation or internationalisation remain effectively located in the institutional structure of the national state. The latter should not be misrepresented as the antithesis of the international or the global, but rather as a form of authority which is increasingly (although still unevenly and often incompletely) re-oriented towards and inserted into the new processes and power structures associated with the globalised international economy.

The global economic crisis has unleashed a new momentum in the dynamics under observation by students of globalisation and IPE. It is precisely the global and regional linkages constructed by states in recent years that are likely to be called into question, or else to disintegrate, as a result of the difficulties currently being experienced in large parts of the world. If the emerging system of global economic and political governance was based on a policy consensus and on an acceptance of the new 'rules of the game' implied by globalisation, then the crisis has swept the rug from under contemporary conceptions of global order and the development of the global economy. It is perhaps inevitable that the result will be an atomisation (or perhaps ‘nationalisation’) of policy responses and an exacerbation of tendencies towards ‘fragmentation’ (as opposed to ‘integration’) in global and regional terms. These outcomes cast further shadow over the convergence debate. Given the current vilification of international financial institutions in the light of the Asian experiences, the contention that the countries and agents of the world economy are converging on a single policy and ideological position rings increasingly hollow, and appears untenable even on the basis of early evidence.

Notes

[1] The term 'globalisation' is widely contested, and refers to a range of economic, cultural, ideational and political-institutional processes and activities. This article employs the term in a fairly conventional sense to refer to the development of international economic and financial activity characterised by (a) an unprecedented intensity and coverage, (b) a genuinely global reach (particularly in terms of the international financial system) which is not constrained by territorial boundaries, (c) a huge growth in all types of transnational activity, and (d) the inclusion of an unprecedented number of countries. A more detailed discussion of the definitions of globalisation can be found in, for example, Richard Higgott, 'Economics, Politics and (International) Political Economy: The Need for a Balanced Diet in an Era of Globalisation', *New Political Economy*, Vol. 4, No. 1 (1999, forthcoming); Jonathan Perraton, David Goldblatt, David Held & Anthony McGrew, 'The Globalisation of Economic Activity', *New Political Economy*, Vol. 2, No. 2 (1997); Paul Hirst & Grahame Thompson, *Globalization in Question: The International Economy and the Possibilities of Governance* (Polity Press, 1996).

[2] See, for example, Susan Strange, *The Retreat of the State: The Diffusion of World Power in the World Economy* (Cambridge University Press, 1996); Susan Strange, 'The Defective State', *Daedalus*, Vol. 124, No. 2 (1995); Joseph Camillieri & Jim Falk, *The End of Sovereignty? The Politics of a Shrinking and Fragmenting World* (Elgar, 1992). The strongest version of the globalisation thesis can be found in, for example, Kenichi Ohmae, *The Borderless World: Power and Strategy in the Interlinked Economy* (Harper Collins, 1990).

[3] For the purposes of clarity, the main levels of analysis will be termed 'national', 'regional' and 'global'. 'International' is taken to refer to both the regional and the global level.

[4] Linda Weiss, *The Myth of the Powerless State: Governing the Economy in a Global Era* (Polity, 1998).

[5] Robert Boyer & Daniel Drache (eds.), *States Against Markets: The Limits of Globalization* (Routledge, 1996).

[6] Weiss, *The Myth of the Powerless State*, p. 2.

[7] This term was originally used by Robert Cox, and refers to 'the global process whereby national policies and practices have been adjusted to the exigencies of the world economy of international production'. See *Production, Power and World Order: Social Forces in the Making of History* (Columbia University Press, 1987), p. 253.

[8] Weiss, *The Myth of the Powerless State*, pp. 3 & 194.

[9] Weiss, *The Myth of the Powerless State*, p. 29.

[10] Peter B. Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton University Press, 1995), p. 12. See also David Bartlett & Wendy Hunter, 'Market Structures, Political Institutions, and Democratization: The Latin American and East European Experiences', *Review of International Political Economy*, Vol. 4, No. 1 (Spring 1997), pp. 109-10.

[11] See, for example, Philip G. Cerny, 'The Infrastructure of the Infrastructure? Toward 'Embedded Financial Orthodoxy' in the International Political Economy', in: Ronen P. Palan & Barry Gills (eds.), *Transcending the State-Global Divide: A Neostructuralist Agenda in International Relations* (Lynne Rienner, 1994).

[12] Ronen Palan & Jason Abbott with Phil Deans, *State Strategies in the Global Political Economy* (Pinter, 1996), p. 23.

[13] For recent examples of this literature, see Strange, *The Retreat of the State*; James H. Mittelman, *Globalization: Critical Reflections* (Lynne Rienner, 1996); Thomas Risse-Kappen (ed.), *Bringing Transnational Relations Back In Non-State Actors, Domestic Structures and International Institutions* (Cambridge University Press, 1995).

[14] Cerny, 'The Infrastructure of the Infrastructure?', p. 227.

[15] Robert Boyer & Daniel Drache, 'Introduction', in: Boyer & Drache (eds.): *States Against Markets*, p. 7.

[16] ECLAC, 1995.

[17] ibid., pp. 15-16.

[18] Palan & Abbott, *State Strategies*, p. 4.

[19] Strange, 'The Defective State', pp. 55-6.

[20] Vincent Cable: 'The Diminished Nation-State: A Study in the Loss of Economic Power', *Daedalus*, Vol. 124, No. 2 (1995), pp. 23-4.

[21] James N. Rosenau, 'The State in an Era of Cascading Politics: Wavering Concept, Widening Competence, Withering Colossus, or Weathering Change?', in: James A. Caporaso (ed.), *The Elusive State: International and Comparative Perspectives* (Sage, 1989), pp. 36-44.

[22] Hirst & Thompson, *Globalization in Question*, p. 1.

[23] Alan S. Milward, *The European Rescue of the Nation-State* (Routledge, 1992).

[24] Pablo Gerchunoff & José Luis Machinea, 'Un Ensayo sobre la Política Económica después de la Estabilización', in: Pablo Bustos (ed.), *Más Allá de la Estabilidad: Argentina en la Epoca de la Globalización y la Regionalización* (Fundación Friedrich Ebert, 1995), p. 45.

[25] Stephan Haggard & Sylvia Maxfield, 'The Political Economy of Financial Liberalization in the Developing World', in: Robert O. Keohane & Helen V. Milner (eds.): *Internationalization and Domestic Politics* (Cambridge University Press, 1996), p. 211.

[26] See Jean Grugel, 'State and Business in Neo-Liberal Democracies in Latin America', *Global Society*, Vol. 12, No. 2 (May 1998).

[27] Haggard & Maxfield, 'The Political Economy of Financial Liberalization', p. 215.

[28] Helen V. Milner & Robert O. Keohane, 'Internationalization and Domestic Politics: A Conclusion', in: Keohane and Milner (eds.), *Internationalization and Domestic Politics*, p. 245.

[29] Stephen Gill, 'Analysing New Forms of Authority: New Constitutionalism, Panopticism and Market Civilization', paper presented to the conference on 'Non-State Actors and Authority in the Global System', Warwick University ESRC Centre for the Study of Globalisation and Regionalisation, 31 October-1 November 1997.

[30] Robert W. Cox, 'Social Forces, States and World Orders: Beyond International Relations Theory', *Millennium: Journal of International Studies*, Vol. 10, No. 2 (Summer 1981).

[31] Comisión Nacional de Comercio Exterior (CNCE), *Informe Anual* 1995.

[32] *Policies to Improve Linkages*, p. 16.

[33] 'The Infrastructure of the Infrastructure?', p. 233.

[34] Eric Helleiner, 'Post-Globalization: Is the Financial Liberalization Trend Likely to be Reversed?', in: Drache & Boyer (eds.): *States Against Markets*. Also see Jan Aarte Scholte, 'Global Capitalism and the State', *International Affairs*, Vol. 73, No. 3 (1997) and Nicola Phillips: 'The Future Political Economy of Latin America', in: Richard Stubbs & Geoffrey R. D. Underhill (eds.), *Political Economy and the Changing Global Order* (second edition, Oxford University Press, forthcoming 1999).

[35] Susan Strange, *Casino Capitalism* (second edition, Manchester University Press, 1997).

[36] John Gerard Ruggie, 'At Home Abroad, Abroad At Home: International Liberalisation and Domestic Stability in the New World Economy', *Millennium: Journal of International Studies*, Vol. 24, No. 3 (1995).

[37] James N. Rosenau & Ernst-Otto Czempiel (eds.), *Governance without Government: Order and Change in World Politics* (Cambridge University Press, 1992).

[38] Saskia Sassen, 'Territory and Territoriality in the Global Economy', paper presented to the conference on 'Non-State Actors and Authority in the Global System', Warwick University ESRC Centre for the Study of Globalisation and Regionalisation, October 31st-November 1st 1997.