Agency, power and state-firm relations in global financial networks

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Abstract

In response to Töpfer’s incisive critique of how current work on global production networks and global financial networks have been too firm-centric and reliant on neoliberal market framings, this commentary highlights three key points for developing deeper conceptualisation of the state in financial processes and networks. The first addresses the role of the state and inter-firm relations, the second deals with conceptualisations of power and agency, and the third is a call to go boldly beyond authoritarian capitalist regimes in moving towards a state-led conceptualisation of global financial networks.

Keywords: Global financial networks, state, firms, power, agency, ecologies

Introduction

Laura-Marie Töpfer’s paper (2018) takes on the current literature on global production networks (GPN) and the more recent conceptualisation of global financial networks (GFN) to argue for a more systematic and incisive analysis of the state and its role in global production. I am sympathetic to this argument and also agrees that the current conceptual framing of key actors and structural dimensions of GPNs have been too firm-centric, with a structural emphasis on neoliberal forces, and does not adequately capture the complexities of state-firm relations in the explanations of global production and regional developmental outcomes. These concerns echo recent calls for more substantive and dynamic treatment of state actors in global economic networks (see, for example, McKinnon 2012; Smith 2015; Yeung and Coe 2015). Such attempts have been even more limited within the GFN literature due to the newness of the framework and also its territorial (rather than actor-centric) focus in the initial conceptualisation (Coe et al. 2014). While the paper makes an important theoretical contribution in offering a refined understanding of agency within GFNs (which is convincingly borne out through the empirical study of Chinese cross-border finance), I also feel that it did not go quite far enough in certain dimensions.

In this context, I want to highlight three key points in this commentary with regards to how we could develop deeper conceptualisations of the state in economic processes (particularly in terms of financial processes and networks), and implications for agency and power in GFNs. The first addresses the role of the state and inter-firm relations, the second deals with conceptualisations of power and agency, and the third is a call to go beyond authoritarian capitalist regimes in moving towards a state-led conceptualisation of GFNs. A point of clarification here: while Töpfer points out that the GFN framework highlights advanced business services (including finance), international financial centres (IFCs) and offshore jurisdictions as vital building blocks that connects financial actors with global production "by facilitating the transfer of funds between buyers and suppliers" (Töpfer 2018: XX), the original arguments in Coe et al. (2014) also specify the importance of financialisation logics and pressures in shaping the business strategies of firms in GPNs. As such my comments address more than just capital circulation but also the mobilisation of financial logics, market formation and accumulation strategies in GFNs.

State-firm relations

In the GFN framework (Coe et al. 2014), the state was left unspecified as the focus was then on territorial dimensions and how jurisdictions were vital in shaping the flows and purposes of international finance and production strategies. This lacuna is specifically addressed in Töpfer's paper in terms of how the Chinese state plays a pivotal role in shaping specific firm strategies and industry changes in cross border flows of finance. However, the core arguments seem to attribute overwhelming power to the state instead of a more nuanced consideration of how state-firm relations and power might actually be contested and renegotiated. This state-led conceptualisation of GFN could go further in examining the dynamic relationship between states and firms. Even if the state is reconceptualised from being 'market mediator' to 'market maker', an argument which I am sympathetic to, the treatment of state-firm relationships could be more nuanced, especially bearing in mind how lead firms are precisely able to achieve and maintain that premier position in their networks through bargaining, consolidation and other forms of leverage vis-à-vis other firms and organisations, and this also includes state entities.

More specifically, the actual state-firm intersections and co-constituted nature GFN formation could be more deeply examined. Joe Daniels and I (Lai and Daniels 2017) made similar arguments directed at financialisation studies when examining the transformation of Singaporean banking firms into financial services corporations. While financialisation studies do feature the state and state actors, the analyses tend to emphasise market imperatives and neoliberal logics over state power and functions, or positions financialisation as a deliberate pathway sought by state actors and policymakers due to state incapacities to resolve internal crises (e.g. budget deficits, economic recessions). These approaches underplay the strategic ways in which the state actively mobilises institutions and firms to adopt and enact financialisation scripts for political-economic purposes. This kind of state-led financialisation emerges from normative influence of the state in the everyday business practices of firms and implies a co-constituted production of acceptable business practice by firms and states.

To illustrate what I mean in terms of delving deeper into state-firm relations in GFNs, let me offer an example based on how states could shape the financialisation of banks through certain mechanisms. Firstly, states could shape firm behaviour and business decisions via direct ownership (either full or partial) of banks. Although many banks have undergone privatization as part of the broader trend of denationalization of state assets and institutions since the 1970s, many governments in Asia and other parts of the world still have significant ownership stakes in banks, even if they are not completely state-owned entities (China would be an obvious example here). The contemporary relevance of state ownership of banks is also demonstrated after the 2008 financial crisis with the flurry of bank bailouts in the USA, UK, Netherlands and elsewhere. Langley (2015), for example, offers a nuanced and extensive analysis of how states and financial institutions intersect in the course of financial crisis management interventions in the US and UK (2008-2011). Secondly, regulatory mechanisms could be used to shape the responses and behaviour of banks towards different types of financial markets and products by making it more or less profitable (or tedious) to pursue particular business segments. Changes in the licensing of banking activities, for instance, could be used to either ‘ring-fence’ certain financial activities for foreign banks according to tiers of licensing (thus shielding domestic banks) or encourage foreign competition so as to push domestic banks into exploring new markets (Lai 2011). Thirdly, states could intersect with banks more indirectly through a form of ‘leaning in’, whereby state interests or official rhetoric could filter through to management decisions via influential positions on the boards of directors of banks. A structure of governing elites consisting of former politicians, civil servants and regulators circulating between state institutions and governing bodies of banks is common in many Asian economies and encourages compliance with financial policies and regulations (Hamilton-Hart 2002).Finally, industry lead firms that are under some form of state-ownership or patronage could be used to influence the behaviour of other smaller banks through ‘demonstration effect’, especially since the behaviour and strategy of such lead firms often signal future growth sectors. All these encapsulates the co-constituted nature of state-firm relations in shaping financialisation and other business strategies and outcomes such that the very nature of what constitutes state influence or firm influence needs rethinking.

Power and agency

While issues of power and agency pertaining to the state and state actors in GFNs are explored in Töpfer’s paper, it marks only a starting point in terms of further engagement with how power and agency are mobilised, reconfigured or contested in GFNs. The paper references John Allen’s (2016) work in defining power as “an agent’s control over material and non-material resources in bargaining processes that span different agents and locations”, but the empirical case and explanations could go further in explicating the multiscalar dimensions and differentiated actors involved in such dynamic bargaining processes. For instance, what are different types and levels of state-firm bargaining? What forms of agency is being mobilised by state actors in shaping firm behaviour and strategies? What about negotiations and bargaining between different state actors within the same national economy or between different nation-states in global economic networks?

In this vein, we should reconsider the value of geopolitical factors and diplomatic relationships in shaping our understanding of state actors, in terms of their agency and how power might be mobilised or exercised, and impacts on policy decisions or state investments that shape global financial flows. In the paper, Töpfer highlights *guanxi* networks and cultural ties to explain the receptiveness of the Chinese state to investments from certain countries and the allocation of bigger trading volumes and quotas. However, political favouritism for certain economies is not just due to cultural explanations but also tied to broader geopolitical environment and relationships with state actors in other countries. The paper acknowledges this through the example of Taiwan seeking RQFII quotas. In the same spirit, we should engage more seriously with broader geopolitical concerns that shape cross border capital flows and examine the differentiated agency of state and firm actors within such political economic contexts. Just keeping to the China example, one could think of the One-China policy, South China Sea disputes, Chinese investments and hydropower projects along the Mekong river, and the Belt and Road Initiative in terms of how developmental goals, corporate strategies and international relations intersect in dynamic and slippery ways that have significant impacts on state-state and state-firm relationships in production networks.

One way to analyse such a coalition of multiple actors with shifting configurations and relationship could be through an ecology lens (Lai 2016; Langley and Leyshon 2017), which recasts a broader financial network as a collection of smaller constitutive ecologies. In terms of power and agency, we could, for instance, view GFNs as simultaneous and overlapping power formations operating within shifting configurations of financial ecologies, with uneven connectivity and material outcomes. Specific forms of state-firm relations could therefore emerge from the entanglement of diverse motivations and plurality of power in conjectural formations.

More than just "Chinese characteristics"?

My final point has to do with theorising from Asia (or elsewhere outside of Anglo-American scholarship). Töpfer's paper claims to develop an empirically grounded theoretical approach of GFN "with Chinese characteristics" — I wonder if that is too specific and limiting. A more ambitious and impactful argument could be made using this empirically grounded analysis to reconceptualise state-firm relationships in the operation of GFNs not just in authoritarian capitalist economies like China but other economies more widely. Reconceptualising state power and agency in global economic networks should be relevant (and in fact, vital) for understanding GPNs and GFNs more extensively as state roles and impacts have largely been underspecified or taken for granted as being shaped by broadly neoliberal principles – when that might not true. One could think of the policy response and actions of various governments in the aftermath of the 2008 global financial crises in bailing out banks, nationalisation and substantive re-regulation of banking and financial activities. These have reshaped financial markets and actions in ways that were previously unthinkable within a neoliberal market-driven ideology. The fact that these have taken place in the USA, UK and Europe does not preclude them from being analysed on the same conceptual terms as authoritarian capitalist economies, Asian developmental states or coordinated market economies. More than just pushing at conceptual boundaries in economic geography, such an agenda has the potential to challenge the intellectual foundations of our scholarship.

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