This PDF is auto-generated for reference only. As such, it may contain some conversion errors and/or missing information. For all formal use please refer to the official version on the website, as linked below.

Class Matters: Global Capital Mobility and State Power in Emerging Economies

https://www.e-ir.info/2019/03/09/class-matters-global-capital-mobility-and-state-power-in-emerging-economies/

ILIAS ALAMI, MAR 9 2019

The causes and consequences of international capital mobility have been widely discussed in the fields of International Relations (IR) and International Political Economy (IPE), particularly in the aftermath of recurring financial crises over the past twenty-five years or so. International capital mobility refers to the ability of private capital to move across territorial borders in search for higher yields. A key question has been the extent to which international capital mobility – greatly enhanced by technological advances in financial trading systems, widespread financial deregulation and liberalisation, the global integration of financial markets, and financial innovation since the 1980s – has caused an erosion of state power. The issue is particularly pressing for developing and emerging economies, which despite growing participation and integration into the financial world market, have remained extremely vulnerable to highly volatile cross-border flows of financial capital, as recent crises in developing countries across the income spectrum have shown. Much of the IR and IPE thinking on the matter has been profoundly shaped by three foundational arguments, which I review in this short article. I am particularly concerned here with the extent to which those arguments allow making sense of the policies that were recently implemented in a number of developing and emerging economies in order to manage cross-border finance. Indeed, in the context of the recent global financial crisis, countries across the developing world deployed measures that aimed at taming the destabilizing effects of sharp swings of unregulated financial capital. For instance, developing economies such as Brazil, South Korea, Indonesia, Costa Rica, Uruguay, the Philippines, Peru, Taiwan, Colombia, and Thailand put in place a variety of capital controls (Grabel 2015).

My overall contention is that those foundational arguments, while providing valuable insights into the nature of contemporary global capital mobility, tend to remain blind to a series of fundamental class-based dynamics and processes that underpin the relation between capital mobility and state power in developing and emerging economies. As a result, their understanding of the recent deployment of capital controls and other policies that aim at managing cross-border finance in developing and emerging economies is incomplete. Instead, I suggest an alternative way of theorizing the relationship between financial capital flows and state power in developing and emerging economies that foregrounds class as an essential category of analysis. I conclude by discussing the implications for researching and teaching global capital mobility in IR and IPE.

Three Foundational Arguments in IR/IPE

Argument 1: Capital Mobility as 'Structural Constraint'

An influential body of IPE literature has argued that global financial integration and enhanced capital mobility on a world scale have eroded the policy autonomy of national states (e.g. Cerny 1999; Cohen 1998; Germain 1997; Strange 1996). The 'capital mobility hypothesis', articulated by Andrews (1994), is particularly representative of this view. According to Andrews, 'the relative absence of friction on financial flows across borders' gives global financial markets a 'structural power' that constrains the policy options available to national states (1994: 195; see Gallagher 2015 for a recent version of this argument). Furthermore, it is argued that 'in the developing world …the influence of financial markets on government policy autonomy is more pronounced', because developing countries are capital scarce and therefore have greater needs to attract financial capital flows, and because of their limited capacity to borrow on global financial markets (Mosley 2003: 3; Wibbels 2006). In sum, state policy-making is constrained by the power of global finance, even more so in developing countries which are more vulnerable due to their form of integration into the global financial system.

Argument 2: Capital Mobility as 'International Monetary Power'

Neo-Realist scholars accept to some extent the above 'capital mobility hypothesis', but contend that what matters most is *power* in the global political economy. This explains why all national states do not face the structural constraint of financial markets in the same way. Indeed, the most powerful states, it is claimed, are capable of shaping international monetary phenomena to their advantage. Neo-realist scholars therefore argue that 'International Monetary Power' is a key feature of world politics (Kirshner 2003, 2006; Andrews 2006; Cohen 2006). This refers to the unequal capacity of national states to avoid the burden of deflationary adjustment in cases of crises or global imbalances, and to the unequal capacity to maintain macroeconomic policy autonomy. A key argument is therefore that 'even though states have lost considerable power and autonomy to market forces in the past few years, the world is still a world of state actors with strong preferences and the power to advance their interests' (Kirshner 2003a: 656). States pursuing their interests 'remain a key and probably most important purposeful force in shaping monetary phenomena' (Kirshner 2003b: 21). Financial globalisation, then, takes place in the geopolitical context of 'US preponderance and unipolarity' (Kirshner 2006). Financial opening (including capital-account liberalisation), high money-capital mobility, low-inflation policies are pushed forward by the US and other advanced capitalist economies because they politically benefit from them, particularly during crises, since the risks associated with those crises are unevenly distributed (Helleiner 1994; Kirshner 2006). In sum, 'money rules, but those rules serve political masters' (Kirshner 2003a: 657).

Argument 3: Capital Mobility as 'Powerful Norm'

Constructivists emphasise the historical role and power of ideas and norms in shaping interpretations and behaviours of policymakers, financial markets and rating agencies in relation to capital mobility. The main argument is that these ideas and norms are 'political weapons' used by powerful actors to depoliticise and naturalise the global financial order (Blyth 2002). Of particular importance is the 'norm of free capital mobility', that is, the belief that 'capital ought to flow across country borders with minimal restriction and regulation' (Abdelal 2007:1). Despite the risks associated with it, this norm has been codified and actively diffused because it served powerful interests: financial actors, the US, which had a comparative advantage in the matter (Helleiner 1994; Blyth 2002), and the European Union and the Organization for Economic Cooperation and Development (Abdelal 2007). As the norm of free capital mobility became hegemonic in the 1990s, a 'policy stigma' became associated with the deployment of policies that challenged it, and a 'reputational cost' with the states that deployed them (Abdelal 2007; Chwieroth 2009; Moschella 2010). Capital controls, for instance, while considered 'orthodox' policies under the Bretton Woods regime, became 'heresy' in the 1990s (Helleiner 1994; Abdelal 2007). This means that the use of capital controls and other 'unorthodox' policies to manage cross-border finance would be interpreted as negative 'signals' by the international financial community, which includes international organizations, credit rating agencies, financial journalists, bankers and investment funds. Punishment for deploying them would often come in the form of capital flight or credit rating downgrade. Constructivist scholars have also shown that norms, ideas, but also neoclassical economic theory have been mobilised to legitimise and depoliticise a number of policies and specific institutions, including inflation-targeting, currency convertibility, independent central banks, and open capital-accounts (Grabel 2000). This was particularly important in the 1990s, where ideas have been crucial to make those policies and institutions appear as the only 'credible policy options' in developing countries.

In sum, those three foundational arguments have shed light on important facets of contemporary global capital mobility: the constraints that global financial markets exert on policy-making in developing countries, the interests that capital mobility serves (powerful states and financial market actors), and the norms and ideas that have contributed to normalize and legitimize it. Based on those arguments, the recent resurgence of capital controls across the Global South has been interpreted as attempts by some developing countries to reclaim policy autonomy: capital controls, it is argued, have allowed some developing states maintaining financial stability, reducing the volatility of financial capital inflows, which has in turn facilitated macroeconomic management and permitted the deployment of heterodox economic policies (e.g. Mini-Symposium in *RIPE 22 (1)*). This interpretation is valuable in many ways, but it tends to obfuscate a series of class-based dynamics and processes, which, as I demonstrate in my research on Brazil and South Africa, fundamentally shape the politics of regulating cross-border financial capital flows in developing and emerging economies. Consequently, this understanding of the recent deployment of capital controls and other policies that aim at managing cross-border finance in developing and emerging economies is incomplete at best.

Foregrounding Class in the Study of Capital Mobility and State Power

My key contention is that in order to understand the relationship between global capital mobility and state power in developing and emerging economies, it is crucial to foreground class as a central category of analysis. This is because both private financial capital flows and the state are underpinned by class-based relations of exploitation and domination (see Alami 2018a for a full exposition of this argument). Let me substantiate this claim by briefly elaborating upon a case study widely used in the literature: the relatively successful deployment of capital controls by the Brazilian state in the post-global financial crisis environment (2009-2013), under the rule of the Workers' Party (the *Partido dos Trabalhadores* led by Lula then Dilma Rousseff).

This case is particularly interesting, because at first glance, the implementation of capital controls on portfolio inflows (a particular type of inward financial capital flow) and of other measures such as tax-based regulations on foreign exchange derivatives contracts (a specific type of financial derivative that investors use to speculate on the appreciation of the Brazilian currency) seems to suggest that the Brazilian state aimed at constraining the power of global financial markets. Yet a class analysis of this historical episode reveals a rather different story. As I argue in a recently published paper (Alami 2019), the deployment of those policies did not challenge the longer-term commitment of the Brazilian state to an open capital account (i.e. permitting the relatively free flow of financial capital across Brazilian borders). They also did not signal a strategic shift on the part of the Brazilian state regarding the integration of the Brazilian economy into global financial markets, and its heavy dependence on vast inflows of global financial capital. In fact, at the same time as those capital controls and financial regulations were implemented, the Brazilian state maintained in place policies that encouraged the large-scale inflow of global financial capital, such as inflation-targeting, extremely high real interest rates, liquidity provisions to financial markets, high primary fiscal surplus targets, large foreign exchange reserve accumulation and monetary sterilization.

Those policies, it is worth underlining, are socially costly, in the sense that they dedicate a very large amount of social resources (that is, social wealth generated through the exploitation of workers and the appropriation of nature in Brazil) to both attract global financial capital flows and to self-insure against some of the risks associated with their volatility. Needless to say, those social resources could be used for development purposes: to pay for much needed infrastructure and social services, to improve the standards of living of the majority of the population, and to reduce profound inequalities. Instead, as Marxian scholars have argued at length (e.g. Soederberg 2004; Marois 2012; Saad-Filho 2017), those policies are a means through which the risks and costs associated with large cross-border financial capital flows are socialised: while only a small elite disproportionately benefits from them, the Brazilian society at large is bearing their risks and costs, including workers, peasants and the poor.

The reason the Workers' Party upheld the above policies, even in the aftermath of the global financial crisis, was that keeping large volumes of financial capital flows coming in was considered imperative. Indeed, the way in which those flows were absorbed by the economy and channelled by the state to different social actors was instrumental in the Workers' Party's economic growth model and in the fragile social contract between classes that it had engineered. The temporary deployment of capital controls and other financial regulations, then, far from signalling an attempt at significantly controlling cross-border finance, actually allowed for the continuation and consolidation of a particular finance-led strategy of accumulation, that is, a growth model and a social contract that heavily relied on vast financial capital inflows, while mitigating some of its worst excesses. In sum, a class perspective shows how policies that seemingly constrain the power of global financial markets, such as capital controls, may in fact be fully compatible with, and even instrumental in the reproduction of finance-led strategies of accumulation (see also Alami 2018c for a class analysis of capital controls in South Africa along similar lines).

Implications for Teaching and Researching Global Capital Mobility

A number of implications can be drawn from the above analysis. Firstly, there are political implications. Indeed, the above argument seriously challenges the narrative, widespread in heterodox economics and critical international political economy, which tends to portray capital controls as inherently progressive policies. It is therefore important, both from an analytical and from a political standpoint, to make a clear distinction between capital controls that are "transformative", that is, that aim at transforming social relations and class configurations (Epstein 2012), and capital controls that contribute to the crisis-driven reproduction of various forms of capital accumulation and capitalist class rule in developing and emerging economies.

There are also implications for researching the relationship between global capital mobility and state power in developing economies and beyond. Foregrounding class as a central category of analysis can yield insights into this relationship that have remained invisible to much of the IR and IPE scholarship on the topic, including the scholarship that draws upon the aforementioned foundational arguments. For instance, the case study previously discussed suggests that while it is certainly true that enhanced global capital has eroded *some* forms of state power in developing and emerging economies, it has also facilitated the reconfiguration of other forms of state power (here, capital controls on portfolio inflows) and the emergence of new ones (the regulation on derivatives contracts). A focus on class is well positioned to elucidate the complex ways in which capital mobility is politically mediated by the state in developing and emerging economies, which involve not only the erosion of state power but also its reconfiguration, and the emergence of new political, institutional, and spatial forms (see Alami 2018b).

Finally, there are implications for teaching. Much of IR and IPE teaching on the topic of global capital mobility relies upon the 'state vs. market' dichotomy, that is, the ontological view that states and markets are mutually exclusive spheres of social existence. As is hopefully apparent from the above discussion, this ontological view is not adapted to make sense of the politics of regulating cross-border financial capital flows in developing and emerging economies, inasmuch as it quite simply precludes any understanding of the relationship between global capital mobility and state power in terms other than a zero-sum game scenario. In times of crises, where the deep entanglement of private financial power and state power is increasingly visible, it is urgent to challenge this problematic view in teaching IR/IPE, both at undergraduate or graduate level.

References

Abdelal, R. (2007). *Capital Rules: The Construction of Global Finance*. Cambridge: Harvard University Press

Alami, I. (2018a). On the terrorism of money and national policy-making in emerging capitalist economies. *Geoforum*, *96*, 21-31.

Alami, I. (2018b). Money power of Capital and Production of 'New State Spaces': A View from the Global South*New Political Economy*, *23*(4), 512-529.

Alami, I. (2018c). Capital accumulation and capital controls in South Africa: a class perspective.*Review of African Political Economy*, *45*(156), 223-249.

Alami, I. (2019). Post-Crisis Capital Controls in Developing and Emerging Countries: Regaining Policy Space? A Historical Materialist Engagement. *Review of Radical Political Economics*, online first.

Andrews, D. M. (1994). Capital mobility and state autonomy: Toward a structural theory of international monetary relations. *International Studies Quarterly 38 (2)*: 193–218

Andrews, D. M. (ed). (2006). *International Monetary Power*. Ithaca: Cornell University Press.

Blyth, M. (2002). "The political power of financial ideas", in Kirshner, J., (ed.) *Monetary Orders:The Political Foundations of Twenty-first Century Money*, Cornell University Press, pp. 239-59.

Cerny, P. G. (1999). "Globalization and the Erosion of Democracy", *European Journal of Political Research*, *36*(1), pp. 1-26.

Chwieroth, J. M. (2009), *Capital Ideas: The IMF and the Rise of Financial Liberalization* , Princeton, NJ: Princeton University Press.

Cohen, B. J., (1998), *The Geography of Money*, Ithaca: Cornell University Press

Cohen, B. J. (2006), "The Macrofoundations of Monetary Power", in D.M. Andrews (ed.), *International Monetary Power*, Ithaca: Cornell University Press, pp. 31–50

Gallagher, K. P. (2015). *Ruling Capital: Emerging Markets and the Reregulation of Cross-border Finance*. Ithaca: Cornell University Press.

Germain, R. D. (1997), *The International Organization of Credit: States and global finance in the world-economy* (Vol. 57). Cambridge University Press.

Grabel, I. (2003), "Ideology and Power in Monetary Reform: Explaining the Rise of Independent Central Banks and Currency Boards in Emerging Economies", in in J. Kirshner (ed.), *Monetary Orders: Ambiguous Economics, Ubiquitous Politics*, Ithaca: Cornell University Press

Grabel, I.(2015). The rebranding of capital controls in an era of productive incoherence. *Review of International Political Economy 22 (1*): 7–43.

Grabel, I., Gallagher, K. P. (2015). Capital controls and the global financial crisis: An introduction. *Review of International Political Economy 22 (1)*: 1–6

Helleiner, E., (1994), *States and the Reemergence of Global Finance: from Bretton Woods to the 1990s* , Ithaca: Cornell University Press

Kirshner, J. (2003a), "Money is politics" *Review of International Political Economy*, *10*(4), pp. 645-660

Kirshner, J. (2003b), "The Inescapable Politics of Money", in J. Kirshner (ed.), *Monetary Orders:Ambiguous Economics, Ubiquitous Politics*, Ithaca: Cornell University Press

Kirshner, J., (2006), "Currency and Coercion in the Twenty-First Century", in D.M. Andrews (ed.), *International Monetary Power,* Ithaca: Cornell University Press

Marois, T. (2012). *States, Banks and Crisis: Emerging Finance Capitalism in Mexico and Turkey*. Cheltenham: Edward Elgar Publishing

Moschella, M. (2010), *Governing Risk: The IMF and Global Financial Crises*, Basingstoke, UK: Palgrave Macmillan

Mosley, L. (2003), *Global Capital and National Governments*. Cambridge University Press.

Saad-Filho, A. (2017), "Monetary Policy and Neoliberalism" In: Cahill, D. and Cooper, M. and Konings, M., (eds.), *SAGE Handbook of Neoliberalism.* London: Sage

Soederberg, S., (2004), *The Politics of the New International Financial Architecture: Reimposing Neoliberal Domination in the Global South*, London: Zed Books

Strange, S. (1996). *The Retreat of the State: The Diffusion of Power in the World Economy* . Cambridge: Cambridge University Press

Wibbels, E. (2006). “Dependency revisited: International markets, business cycles, and social spending in the developing world”, *International Organization*, *60*(02), pp. 433-468.

About the author:

Ilias Alami is a postdoctoral researcher at Maastricht University in the Netherlands working on the ERC-funded research project *Legitimacy, Financialization, and Varieties of Capitalism: Understanding Sovereign Wealth Funds in Europe (SWFsEUROPE)*. Prior to joining Maastricht University, he taught international political economy, globalization and development at the University of Manchester, UK. His research and teaching interests are in the areas of the political economy of money and finance, development and international capital flows, the geographies of global finance, materialist state theory, and race/class/coloniality. Some of his recent work has been published in *New Political Economy, Review of African Political Economy, Review of Radical Political Economics,* and *Geoforum*.