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Reimagining Susan Strange's States and Markets: Small and Medium Enterprises in Fragile Situations

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In this article, the authors re-imagine Susan Strange's structural power conception and analyse the implications of how private sector's participation in the global value chains (GVC) contribute to the structural power in a specific subnational context – fragile and conflict-affected situations (FCAS). Using the case of Mindanao, a southern region in the Philippines laden with history of fragility and armed conflict, this article finds that while FCAS areas tend to be with relatively weaker sources of structural power such as security and finance, the local businesses in FCAS have the potential to link to the global economy. The authors argue that the GVC participation of small and medium enterprises (SMEs) not only contributes to the structural power in the international political economy arena, but that it plays a crucial role in bridging the “isolation narrative” in subnational fragile and conflict-affected situations.

Defining FCAS and GVC participation: Potential Nexus for International Relations

While literature on the business for peace underscores the private sector's crucial role, there are few academic inquiries on the role of private sector's linkage to global value chains as source of structural power in the context of fragile and conflict-affected situations (FCAS). There are numerous examples of successful hybrid business models for peace and reconciliation (Kolk & Lenfant 2016) such as in Colombia (Miklian & Medina Bickel, 2020) and in Sierra Leone (Ganson & M'cleod 2019). While this further supports the development-business collaborations as supportive to peacebuilding, case studies under this literature focus on peace and social welfare outcomes rather than linkage. Isolation narrative is one recurring issue raised in FCAS areas where it is found, for example, that the more isolated municipalities have higher presence of non-state armed groups (Miklian & Medina Bickel 2020, 700). In the FCAS context, isolation could also mean *exclusion* (Bujones et al. 2013, 15) from economic, social, and political decision-making and power-sharing. To begin with clarity, this section ties the definition of the two main concepts of analysis— the notion of fragility and conflict-affectedness and the concept of participation in the global value chains—and further provides an analysis in the succeeding sections on how the potential nexus contributes to structural power in international relations.

Debate around the concept and definition of fragility and conflict-affectedness are earlier traced in the work of Mcloughlin (2009). Fragility is usually contrasted with states' resilience or ability to perform certain functions that meet the expectations of its citizens. Mcloughlin (2009, 9) noted that scholars delineate *fragile states* from *situations of fragility*. The *former* definition was linked to states' failure to uphold Weberian ideals while the *latter* recognizes a broader recognition that fragility can stretch beyond the nature and boundary of the state. This means defining fragility and conflict-affectedness requires looking at the “state of the society” which involves weak state and peacebuilding institutions that overall results in poverty and low economic growth. While different multilateral development agencies define fragile and conflict-affected situations (FCAS), this article uses the definition of Asian Development Bank for a simple reason – that the case analysed in this paper is in the Philippines which is part of the Asian context. Based on the ADB's definition (2016, 4), a fragile situation refers to “a state's failure to perform its core function effectively and provide basic social services.” This notion of fragility and conflict-affectedness as a “development dimension” (Bertoli & Ticci 2012) encourages the donor community to create tailor-made approaches that take into account the “idiosyncrasies of local contexts” (Desai et al. 2012, 55).

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Defining participation in the global value chain (GVC) is straightforward and requires defining what a value chain is and what participation means for firms in the global arena. A *value chain*, as defined by (Sturgeon, 2001, p. 12) is the “*productive (i.e. value-added) activities that lead to and support the end use of a particular product or service, less the activities of the lead firm*”, thus part of the global value chain can be done in a different country. This means that a raw material sourced from country A can be processed with added value in country B to be sold in another country C. This indirect linkage to global value chains is more evident in small and medium enterprises (SMEs). Consistent with the Asian context, this study uses the definition of the Asia Pacific Economic Cooperation (APEC) on SME internationalisation participation (Yuhua 2015, Section on ‘Forms of Internationalization’) referring to direct and indirect internationalization activities of SMEs as either direct exporting, direct importing, investment abroad, subcontractors to foreign enterprises, having foreign subcontractors, and cooperation with foreign enterprises.

Tying these two concepts of FCAS and SME participation in GVC could have potential implications on the conception of structural power in the international political economy arena. As discussed earlier, FCAS areas are observed to have the isolation / exclusion narrative as caused by conflict and fragility. One innovative way of bridging this isolation at the subnational state level is through subregional integration of poor areas of each country. One example is the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) which has a unique membership—the country is not the member but rather the poorer subregions of the countries. While this type of integration contributes to opportunities for economic integration and development, there are critiques that homogeneous products in these areas could hamper the overall competitiveness of each member subregion. Nevertheless, this supports the idea that linkage of firms to the global economy contributes directly to the overall economic development. However, the question remains: how do these SME linkages to GVC—directly or indirectly—bridge the isolation / exclusion narrative evident in FCAS areas to further their subnational structural power? This is scrutinized further in the next section using Susan Strange's treatise on States and Markets.

FCAS and GVC participation of SMEs: Sources of structural power in the international political economy

Susan Strange (1988), in her classical treatise on the sources of power in the world economy, detailed how structural power determined the relationship between states and markets in the contemporary global context. Strange put forward that production, knowledge, finance, and security make up the pillars of power and authority, which shape and influence economic life. These structures of power go beyond the limits of traditional state borders and collude towards global integration of systems and have the ability to “decide how things shall be done, the power to shape frameworks within which states relate to each other, relate to people, or relate to corporate enterprises.” (Strange, 1988, pp. 25)

The critical importance of Strange's work relies on the understanding of the power structures as tools for ‘commanding heights’ on the world stage. Similarly, gaining access to these strategic sources of power—through world trade and some form of economic integration—has always been a struggle for many, depicting an arena of contestation for global political and economic dominance.

However, as this nature of the global political economy progressed, we saw nations and regimes rise, with new powers challenging the old, while some losers continue to lag behind in this interplay of power and the economy, or in other words, the huge contest between markets and states. Yet, in the advent of a much more integrated world political economic system, we saw the continued emergence of situations afflicted by both fragility and conflict. In other words, while it is necessary to analyse sources of structural power at both global and national levels, it may not be sufficient. It is imperative to look closely into subnational contexts and hence, the authors attempt to reimagine Susan Strange's States and Markets, specifically, by analysing how the GVC participation of small and medium enterprises (SMEs) not only contributes to the structural power in the international political economy arena, but how it plays a crucial role in bridging the “isolation narrative” in subnational FCAS

Hence, we do ask, in theory, how do fragile and conflict-affected situations (FCAS) gain access (albeit limited), to structures of power and the commanding heights? In a more practical sense, we ask, how do vulnerable economies or subnational cases have access to the world economy, to benefit from global trade and development?

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In their exploration of the effectiveness of aid targeting in fragile and conflict-affected situations (FCAS), Carment & Samy (2019) forwarded that cycles of poverty will continue to affect fragile states and called for a re-examination of foreign-led interventions and aid by espousing a more 'multidimensional approach to the identification and classification of fragile states (Carment & Samy 2019, 94).' They proposed a framework that gauges the varying states of fragility focusing on three main factors, namely, authority, legitimacy, and capacity. They frowned upon the situation where aid is ineffectively poured because of the disregard by donor countries to the careful analysis of contexts, such as the lack of authority and legitimacy in their studied country-cases. In practice, this goes parallel with the Asian Development Bank's operational approach in managing its FCAS interventions, which gives due attention to political economy analysis, dissecting issues of governance and binding constraints, and more deeply, "recognizing the interaction among fragile situations, weak institutions, and development activities" (ADB 2014, 1).

Espousing this approach of taking a closer look at particular social and political developments, Porter et al. (2013, 311), in their elucidation of the lack of effective institutions of justice and order in FCAS, called for the reimagination of the institutions of public order "beyond the laws, procedures, skills and technologies" and pushed for the examination of "elite bargaining, collective struggle and normative change that shape institutions." While they mainly focused on analysing institutions of security and justice, it is important to look back to their case as they underlined the need for 'rethinking donor engagement' and concentrated on the comprehension of "how power is ordered, with networks of power (Porter et al. 2013, 323)."

From the above discussion, we carefully draw our main conceptions of the nexus between FCAS and SME GVC participation in the context of the international political economy arena. First, through Strange's timeless analysis of the discursive relationship between governments and markets (led by the private sector), we come to understand how the private sector plays a crucial role in bridging the "isolation narrative" in subnational FCAS through SME participation to global value chains (GVC). Second, by not just looking at the power of government institutions and of the law, as what Porter et al. (2013) began to lay down, the merits of the discourse on power emanating from the market and the private sector revamps how we view structural power. That is, the private sector's power which is contributory in nature to the overall structures comes with a certain level of independence rather than viewing this as overly dependent on the quality of institutions. To offer clarity, we discuss in the next section the case of SMEs in Mindanao, Philippines.

Case in point: Linkage to GVC of SMEs in Mindanao, Philippines

Taking the case of Mindanao—a region in the Southern Philippines with high poverty and history of armed conflict and fragility—this section explores the enablers and constraints for SME GVC inclusion in the context of FCAS areas. In the Philippines, 99.6% of firms are micro, small, and medium enterprises which contribute more than 60% of jobs. Evidently, small and medium enterprises (SMEs) are major contributors to a country's economy. However, SMEs are laden with distinct firm and entrepreneurial constraints. This can be further complicated by weaker institutions under a complex political economy such as in the Mindanao region in the Philippines.

Looking at the indicators from the 2015 Cities and Municipalities Competitiveness Index (CMCI), data shows that Mindanao has few financial institutions compared to the other regions in the country. Apart from the lower quantity, the quality of these financial institutions is relatively inferior, that is, they have lower capacity for loans (i.e. pawnshop, financial cooperatives, and microfinance, and savings and loans association). In addition, 2015 Uppsala Conflict Data shows that Mindanao has a high prevalence of armed conflict accounting for more than 70% of 203 recorded conflict in the country that year compared with the low prevalence in Luzon (less than 10%) and Visayas (approximately 20%). This trend is consistent from 2008-2017. This evidence points to weaker sources of structural power discussed by Strange (1988) – security and finance – which FCAS areas tend to have.

In terms of GVC participation, the number of SMEs that were able to link to the GVC directly or indirectly were estimated following the definition of APEC SME Internationalisation Participation (2015). Estimates based on the 2015 Annual Survey on Philippine Business and Industry (ASPBI) (Daño-Luna 2019) reveal that only 11% of total Philippine SMEs can link to GVCs while only 14% of these SMEs are from Mindanao.

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While the combination of these results implies that strong enabling environmental institutions are crucial for businesses not only to operate efficiently but to participate in the global value chains, it is important to note that nuancing is crucial to show how the private sector in FCAS operate. Interestingly, key informant interviews with different entrepreneurs in Mindanao (Daño-Luna, 2019) reveal that some SMEs, even while operating in the context of fragility and armed-conflict affectedness, are able to successfully link to GVC.

The interview answers were analysed based on where the constraints, enablers, or motivations emanate from (i.e. entrepreneur, enterprise, or institutions). One of the notable findings from the interviews shows that a positive growth mindset of entrepreneurs are top enablers for SMEs, specifically in the services sector, to be able to participate in the GVC. For instance, one SME experienced poor internet connection and lost international clients but still persevered and sought the help of the local government unit to link them to clients through business matching and attending exhibitions. Moreover, an entrepreneur producing organic juice, despite losing a client due to travel restrictions brought about by the Mindanao martial law in 2017, persevered in applying for Food and Drug Accreditation (FDA) despite the tedious and bureaucratic process. This allowed her business to overcome an important business hurdle in exporting and have the accreditation as “ticket” in getting government export subsidies and support. Overall, strong business networks enable an SME to not only export but to also subcontract to exporting firms. In the case of one cacao business, they were able to reach wider clients by banding together with other cacao businesses to meet the volume requirement of clients. In terms of subcontracting to an exporting firm, a banana cooperative composed of former rebels were able to link to GVC by subcontracting to an exporting Chinese firm.

The empirical evidence discussed above supports the authors' argument that indeed there is potential for private sectors' participation in GVCs to contribute to the structural power even in the FCAS context. Moreover, it aids the FCAS areas' linkage to the global arena—thereby addressing the isolation narrative in FCAS. However, there is an important caveat that parallel strengthening of institutions and state-building (Asian Development Bank 2014, 2) in FCAS areas are needed for long-term support to the contributory power of SMEs linked to GVC.

Conclusion and Implications

This article veers away from the usual myopic domestic discussion of national laws and policies in the context of FCAS but rather focuses on the contributory power of private sector's participation to GVC in linking to the international political economy arena. The authors argue that GVC participation of small and medium enterprises (SMEs) not only contributes to the structural power in the international political economy arena, but that it plays a crucial role in bridging the “isolation narrative” in subnational fragile and conflict-affected situations.

The conclusions drawn do not in any way suggest to discount the important work of state-building and strengthening institutions. In fact, we highlight the findings that financial institutions and business organizations are significant institutional enablers for Mindanao SMEs to link to GVC. Moreover, making business renewal more efficient for SMEs is imperative given that Mindanao SMEs are prone to be in cities and municipalities with less efficient business renewal processes.

This article hopes to shed light on two important implications. On the policy implication, this article finds that SMEs in FCAS areas are able to successfully link to GVC despite situations of fragility and armed-conflict affectedness with entrepreneurs having strong growth mindset and business networks. Therefore, we recommend that government policy explore incentivising SME attendance to mentorship training and business network matching. We propose that this should be with a clear goal of improving their participation in GVCs. On the theoretical implications, we suggest a future research agenda of studying fragile and conflict-affected situations in international relations and related studies, as a conscious and deliberate effort of the community of scholars to look into the contributory power of the private sector specifically in bridging the isolation narrative in the fragile and conflict-affected situations context.

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