External Constraints on Policy-making in Developing Countries: How Autonomous are the States?

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Within the broader perspective outlined in the preface the purpose of this paper is to provide an introduction to the themes and perspectives with particular emphasis on external constraints on policy making. The first section briefly reviews the debate on relative state autonomy in the 1960s through the 1980s (a more comprehensive review is given in Martin Doornbos' paper later in this volume). The second section provides an outline of global and regional changes which have impacted heavily upon the relative autonomy of Third World states in recent years. The third section looks more specifically at the implications of global change processes and major global actors for industrial development in different types of developing countries. Special attention is given in this context to the emerging institutional framework and the global actors who lay down 'the rules of the game'. The fourth section takes up for separate discussion the external constraints affecting aid dependent weak states. The final section sums up the discussion about external constraints and broaden the perspective with brief references to intra-societal conditions.

Relative and Embedded Autonomy Revisited

In retrospect, the diverging views on the degree of state autonomy could largely be attributed to: (1) the different kinds of approaches adopted; and (2) the varying outcomes of empirical analyses.

Broadly speaking, it is the impression that most of the variation concerning views on the degree of state autonomy could be attributed to the approaches and perspectives applied, rather than to the findings of empirical analyses. Actually, state autonomy was rarely posed as an empirical question. Consequently, it may be helpful in an attempt to acquire an overview of the competing conceptions and fragments of theories of state autonomy to relate these backwards to the more basic conceptions of the state.

At a high level of abstraction, the state - as political institutions in general - can be described with the help of four analytical dimensions (cf. Martinussen, 1997, Ch. 16). A particular state conception may correspond to one of these dimensions, or to a combination of two or more of them. The four dimensions are the state as:

(1) a *product* of conflicting interests and power struggles, possibly also as a reflection of a many-sided dominance which makes it an agenda- and discourse-setting institution;

(b) a *manifestation of structures* which lay down the framework for the state's mode of functioning and impose a certain order on both the state and its interaction with the rest of society;

(c) an *arena* - or forum - for interaction and conflict between contending social forces; and

(d) an *actor* in its own right which by its form of organisation and mode of functioning exert a relatively autonomous influence on outcomes of conflicts and other processes in society.

The two first-mentioned analytical dimensions resemble each other in that they both focus on the state as extensively embedded in society. When a distinction is proposed between the two it is to highlight that the first dimension focuses primarily on the role of social and political actors in shaping state formation and policy-making, whereas the other pays more attention to the economic structures and their direct determination (or 'limitation' in the case of less deterministic conceptions) of the form and mode of functioning of the state.

We may use these four dimensions to describe and compare different state conceptions in connection with a fundamental distinction between, on the one side, society-centred approaches, and on the other, state-centred approaches.

A *society-centred* approach a priori assigns primacy to societal structures and social forces - economic structures, social classes or interest groups, depending on the type of conceptualisation of society. A society-centred approach rests on the assumption that societal structures and social forces have a greater impact upon the state than the state upon society, although some kind of interplay or dialectic relationship is implied.[1]

A *state-centred* approach, on the other hand, is a mode of inquiry that focuses on the actual behaviour of the state apparatus and the autonomy exercised by that apparatus and its personnel. The approach need not imply an assumption about the state as having a greater impact upon society than society upon the state. Without minimising the importance of societal actors and variables, the proposition implied is merely that the state can advantageously be accorded analytical priority (Clark & Dear, 1984). Although some of the state-centred approaches investigate the relations between society (or economy) and politics without assuming a very high degree of state autonomy, it remains a general feature of the whole approach to look for autonomy and autonomy-enhancing actions - rather than for state-external factors and their modes of shaping state institutions and interventions. The state is regarded as an independent actor, rather than as a product of conflicting interests and power struggles.

At the high level of abstraction referred to above, there is a tendency for society-centred approaches to emphasise the constraining influences on state formation, decision making and policy implementation, whereas state-centred approaches tend to focus much more on intra-state procedures and actors such as politicians and bureaucrats. At lower levels of abstraction, however, it should be possible to combine to some extent these perspectives (a) by posing the degree of autonomy that may be attributed to the state institutions and their personnel as *an empirical question*, and (b) by viewing the role of the state as part of a process. This latter approach would imply disaggregating the interaction between state and society into component processes, analytically ordered into sequences such as interest articulation and aggregation; decision making; implementation; and impact achieved. The important matter in this context is not the exact conceptualisation of the processes of policy formulation and implementation, but rather the emphasis on state-society interaction as continuous interactive processes, circular or spiral depending on the outcome. If this is combined with an open-minded empirical approach, it would lead to investigations of actual degrees and types of autonomy, not only at the aggregate analytical level of the state but

[1] Using Nicos Poulantzas' distinction between state power, state apparatus and state functions, the society-centered approach concems itself with clarifying how and to what extent state power - which is located in society - determines the form and mode of functioning of the state apparatus (Poulantzas, 1978).

also at the level of specific state institutions and, moreover, concerning different policy areas and the various stages of the policy process.

The conceptual framework elaborated and applied by Merilee S. Grindle and John W. Thomas may be useful in this context (cf. Grindle & Thomas, 1989; 1991). They add to the analyses of institutions and their mode of functioning a strong emphasis on the actors, particularly those involved in formal policy-making who are referred to as 'the policy elite'. These policy-makers act with some degree of independence from societal pressure, but the options available to them are constrained by external factors. Grindly & Thomas propose to analyse the role of the policy elite in policy-making by breaking down the process into three major components, which are analytically separable but in practice interact on a continuous basis. The three components are: agenda setting, decision making, and implementation. It is not the aim in the present context to review this conceptual framework, but merely to point to a few observations which have emerged from the studies made by Grindle & Thomas. Some of these points will be discussed further in my paper on India in this volume.

A first interesting point is that agenda setting takes place in very different ways in situations of crisis as compared with 'policy-as-usual' situations. In a crisis-ridden situation, external factors generally dominate the agenda setting and often even the prioritisation of agenda items, while in 'policy-as-usual' situations the policy elites shape the agenda or at least heavily influence it. These differences are to some extent brought forward into the decision-making phase, where the perceptions and calculations of the policy elites are generally important determining factors of outcomes but where, at the same time, the implications of misconceptions and miscalculations may be very dissimilar in crisis-ridden situations and 'policy-as-usual' situations.[2]

External pressure groups, even in democracies, are often prevented from exercising strong influence during the decision-making phase, but may still be able to oppose effective implementation and the achievement of intended impact. At this stage of the policy process, Grindle and Thomas introduce a distinction between reactions in 'the bureaucratic arena' and reactions in 'the

[2] From my own experience two cases, in particular, come to mind: One was the carefully calculated military take-over in Pakistan in 1958 which introduced a period of relative political stability and paved the way for economic reforms. The dicision taken by the military leadership was chiefly driven by law-and-order considerations, but essentially in a 'policy-as-usual' situation by Pakistani standards. This may be compared with the crisis-ridden situation in 1971, when the West Pakistan policy elites decided to use military force in East Pakistan to suppress the Bengali nationalist movement for independence. This turned out to be a serious miscalculation which led to the formation of Bangladesh nine months later.

public arena'. While accepting the intentions behind this distinction, I would propose treating the bureaucratic arena and reactions as intra-state matters and thus, in institutional terms, make a qualitative separation of these from extra-state responses to policies and bureaucratic intervention. Or in other words: I would prefer to look at the bureaucracies as part of the state and as crucial components of the institutional arrangements for policy implementation. Government personnel may interfere with the implementation of policies by selectively promoting some aspects of policies and by distorting them in other ways, but bureaucrats still in a fundamental way belong to the state and some of them even to the policy elites. In analyses of policy implementation, therefore, they should be treated differently from exstra-state actors such as business associations, companies or trade unions; the underlying assumption being that the interaction and dynamics within state apparatuses are different from interactions and dynamics between state institutions and societal actors.

By combining the institutional perspective - with a focus on the state - with an emphasis on the policy elite as a prime actor within the state, the complexity involved in describing actual degrees and types of autonomy may be illustrated with reference to four points:

(a) States differ considerably with regard to their societal embeddedness; the powers and interests that shape their mode of functioning; their legitimacy and authority; their capabilities and capacities - and therefore with respect to their degree of autonomy. Policy elites act with varying degrees of independence from societal pressure and thus in different ways affect policies and outcomes: Some policy elites play important independent roles, while others are narrowly constrained by state-external conditions and organised interests.

(b) Autonomy itself is a very complex phenomenon, referring to such diverse aspects as autonomy vis-à-vis specific societal groups and actors, and autonomy to do - to act in various fields and ways. Autonomy further takes on different kinds of meaning when related, respectively, to the state as a whole, to its constituent parts, or to the policy elites.

(c) There may be great differences from one policy area to another: A state may be able to act independently and effectively in certain areas, while in others it is unable to do so because of structural constraints or constraining influences from societal groups and other actors. A similar differentiation may apply to policy elites.

(d) Finally, considerable differences may occur when we take a closer look at the various stages of the policy process. We may not find the same degree of autonomy for policy elites at all stages from agenda setting, policy formulation through policy adoption, authorisation and implementation to impact. Particularly at the impact stage, both the autonomy of policy elites and state autonomy in a broder sense are often severely limited in the sense that intended effects cannot be brought about by state action.

Turning the issue of institutional autonomy into an empirical question does not prevent us from working with guiding principles or hypotheses regarding the balance between intra- and extra-institutional forces. Based on experience and previous research I have no doubt that, generally speaking, state institutions are strongly influenced by external conditions and societal forces and, more important, that their impact upon society is seriously limited by such external factors. But no general conclusion is warranted as to the exact balance between external and internal influences. Institutions are 'formed and fuelled' by powerful external interests, but these interests vary both with respect to their character and the amount of power sustaining and promoting their realisation. Moreover, when state institutions have existed for some time they tend to acquire some degree of independence based on the powers they organise and the resources at their disposal - they tend to become actors in their own right. Institutions further tend to become structured arenas or fora with inherent social biases, i.e. they tend to favour certain groups and at the same time disfavour others in terms of their access to decision makers and their influence on the outcomes of decision-making processes. By conceptualising state-society interaction in this manner it is possible to combine society-centred and state-centred approaches into more open-minded guidelines for research which can also pave the way for differentiating among states and state institutions.

Some of the scholars who have applied theories of the state in a Third World context have attempted such differentiation as is evident from the literature on weak and strong states or on non-developmental and developmental states (Evans, 1989; Johnson, 1982). Other scholars have further emphasised the importance of historical legacies and the relative importance of intra-societal versus extra-societal structures and forces (cf. Martinussen, 1997, esp.. Chs. 12-13).

The actual forms and functions of specific state apparatuses are not determined solely by *contemporary* economic structures and social forces. They also embody to some extent the *structures and forces of the past* - the structures and forces prevailing in society at earlier stages of its development.

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Further, every societal formation in today's world is part of larger regional and international systems and are thus influenced by process structures and social forces in these larger systems. From the point of view of a given society these structures and forces are *extra-societal*.

The historical as well as the extra-societal dimensions are of particular importance in a Third World context. During the colonial period, which affected almost all the developing countries of today, the extra-societal determination was extremely powerful. It left a legacy of great importance for understanding and analysing contemporary states in Third World countries. Two important observations have emerged from the analyses of historical legacies and extra-societal determination of state formation:

(1) First, as an overall consequence of the way in which the colonial state was constituted, developed, and transformed into a post-colonial state, the contemporary states of the Third World probably feature a higher degree of relative autonomy vis-à-vis the internal structures and social forces than is typical of the states in the more industrialised countries of the North.

(2) Second, this difference is compounded by the higher degree of extra-societal determination of the peripheral states and their mode of functioning than what applies in the case of most of the countries of the North.

There is a fairly widespread agreement on these very general observations as reflected in most of the theories regarding the state in the Third World. With reference to contemporary conditions obtaining in developing countries, I would like to argue that external constraints on policy-making and implementation have increased - rather than diminished - as a result of recent global and regional changes. I will deal with this topic by combining some general observations with a more differentiating approach that takes into account the wide variation from country to country, as per the guiding principle referred to above.

Globalisation and Other Trends in Global Change Processes

During the last decade, cross-border economic transactions have increased in scope and intensity. This applies to trade flows, investment flows and financial flows, but also to flows of services, technology, information and ideas across national boundaries. Interdependence between countries within the global economic, political and other systems has increased. Decisions and activities in one part of the world more than previously influence actors' options in other, even distant parts of the world. These changes are what is referred to in the literature as 'globalisation' (cf. McGrew & Lewis, 1992; Lauridsen, 1997a; 1997b).

Much of the debate on globalisation centres around two crucial issues:

(a) The extent to which local and national economies are subsumed and integrated into a new set of essentially global processes and transactions (referred to as 'the end of geography'); and

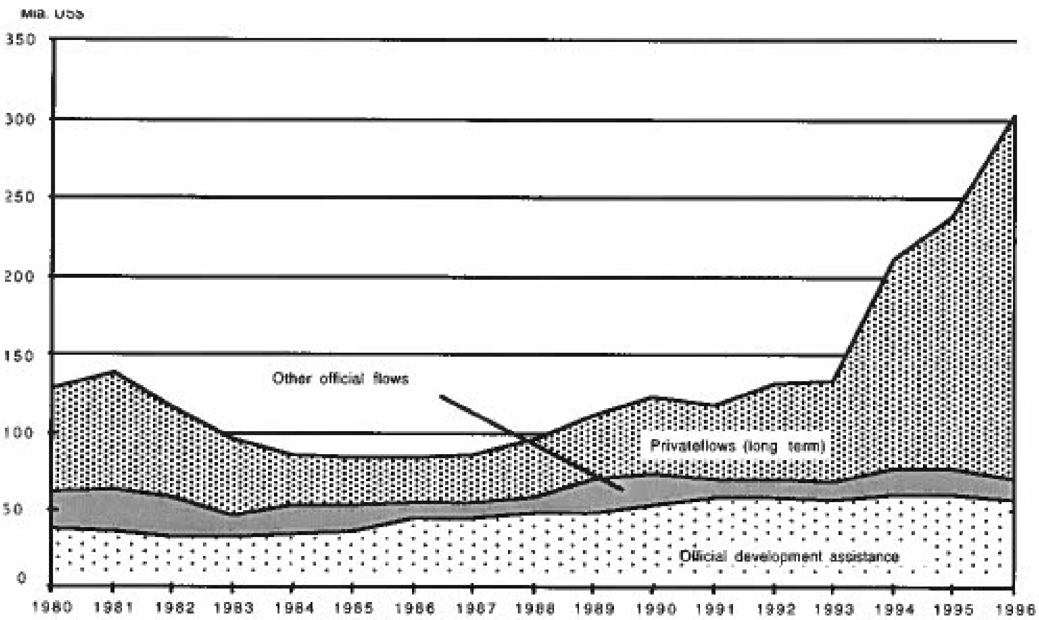
(b) The extent to which processes of globalisation erodes the capability and capacity of nation states as sovereign economic regulators ('the end of the nation state').

Opinions differ widely on these issues, often mixing normative theory with attempts at identifying causality.

According to what may be termed the 'hyper-globalisation school', we now live in a borderless world where the national economies are no longer relevant as units of analysis and where nation-states are not important actors any more (cf. e.g. Ohmae, 1990; 1995). This is noted without regret by advocates of these views because at the same time globalisation implies better opportunities for growth throughout the world. What matters for the poor countries is to catch the 'train' before it is too late. They have to adjust their policies and institutions, open their economies, deregulate and privatise. In particular, they have to adjust in order to attract more foreign capital - the dominant engine of growth. As a corollary, it is argued that official development assistance is generally less relevant for the poor countries of the world. This claim is often supported with reference to the fact that foreign aid has declined in both absolute and relative terms, while private capital transfers to developing countries have increased significantly during the 1990's. Figure 1 depicts these trends.

The growth of long-term private capital flows from industrialised OECD member countries to developing countries slowed down in 1997 and 1998, but remained at a level around US$ 250 billion, about five times more than official development assistance.

Figure 1: Long-term flows from DAC to developing countries



Source: OECD/DAC statistics, available at 'www.oecd.org/dac' on the Internet.

According to others, however, these tendencies should be interpreted more carefully and globalisation should be looked at rather as a complex set of processes that entail advantages for certain countries but at the same time implies disadvantages for other countries. They stress that the ways in which local and national economies are subsumed and integrated into the global economy vary significantly from country to country - as well as from sector to sector.

If we look closer at the changes in the world economy, what we find is not only a trend towards globalisation but also very different trends which may be described as regionalisation and marginalisation (or exclusion). As seen from the perspective of developing countries, the so-called globalisation processes have appeared as inclusion for only about a dozen countries and as marginalisation for the overwhelming majority. About 140 developing countries, combined, received less than 5% of total private capital transfers in

1996 and 1997, while nine countries in 1997 received about 65% of total foreign direct investment - the most attractive form of capital transfers. The nine most preferred developing countries and their shares of foreign direct investment are listed in table 1.

Table 1: Foreign direct investment in the most preferred developing countries, 1997

(percentages of total FDI in developing countries)

China	37,0	Indonesia	5,8	Chile	3,5
Brazil	15,8	Malaysia	4,1	India	3,1
Mexico	8,1	Argentina	3,8	Venezuela	2,9

(Source: World Bank, *Global Development Finance 1998*, p 20.)

Geographical distance may be less important today than, say, twenty years ago, but geographical location still matters. Or as Peter Dicken has aptly summed up his position on this issue: "Every component in the production chain, every firm, every economic activity is, quite literally, 'grounded' in specific locations. Such grounding is both physical, in the form of sunk costs, and less tangible in the form of localized social relationships." (Dicken, 1998, p 11). The pattern of foreign direct investment flows evidently supports the contention that certain geographical locations are preferred over others. The pattern further lends credibility to the claim that some societies are much more attractive to private investors than others.

Foreign direct investment and long-term loans may significantly contribute to the financing of development, but such private capital transfers are not allocated according to need, but determined by corporate strategies with a focus on profitability and access to raw materials and markets. The overwhelming majority of poor Third World countries are of very little interest to private investors for several reasons: The markets are small and effective demand is low and often stagnating; the private sectors are poorly developed; the political system is frequently unstable and society torn by civil strife and conflict. Most poor countries have poor economic policies, poor infrastructure, undeveloped financial systems, and a poorly qualified workforce.

These countries may attract volatile private capital on a short-term basis, but not foreign direct investment or other long-term commitments. They do not benefit from the increased capital transfers. They are more - rather than less - dependent on official development aid.

Seen from a different perspective what is referred to as globalisation is really a process of 'triadisation' with centres in the United States, the EU and Japan. A small number of developing countries, particularly in Asia, have been included as beneficiaries of regional industrial growth, but the large majority have been left out. In other words, contemporary global change processes should rather be characterised as a complex combination of (cf. Oman, 1994; 1997; UNCTAD, 1996):

* Globalisation,
* Regionalisation (or 'triadisation'), and
* Marginalisation.

It should be added that the global change processes appear in very different forms in different sectors. The patterns of change are markedly different, for instance, in electronics and agro-related industries.

As regards the role of the state, it may be true that Third World states in general have come under increasing external pressure and that their roles as containers of distinctive business practices and as regulators of economic activities within and across their borders have diminished. But to what extent these changes have been brought about vary significantly from country to country. Moreover, it can be argued that all developing country states continue to critically affect, positively or negatively, both the attractiveness of their countries to foreign investors and the overall competitiveness of their domestic industries.

There is little doubt that attractiveness in this context is mainly generated by broader societal conditions such as the actual and potential size of the market; the factor and resource endowment of the country; the relative price structure, including the price and availability of relevantly qualified labour; the basic infrastructure and communication system; and basic attitudes to work; etc. Yet, at the same time these conditions, particularly in a longer-term perspective, may be influenced by state interventions. Besides, politically or state induced incentives and disincentives - such as economic policies and the institutional arrangements affecting economic activities - influence the attractiveness of any country, even in a short-term perspective.

With respect to the states' influence on overall competitiveness of domestic industries, I think this should be seen as part of the social-institutional embeddedness of economic activities as argued convincingly by, e.g., Richard Whitley and Michael Porter. According to Whitley, states generally play important roles in setting up and maintaining the broader institutional framework for distinctive national business systems the core features of which strongly affect the extent to which a country is economically competitive (Whitley, 1992; cf. also Dicken, 1998, p 80 ff.). Porter is more reluctant to assign a major determining influence to states, but he does stress that governments influence the four main determining conditions in his 'diamond' (cf. Porter, 1990, p 71 ff.). He further emphasises that the competitive advantage of national economies - and particularly of clusters of firms within these economies - is created and sustained through highly localised processes and institutional mechanisms for specialised factor creation (ibid., pp 19, 80). Governments can actively contribute to providing national-institutional foundations for increased competitiveness; they have done so in the past in several countries; and as the home nation of firms takes on growing significance, rather than diminishing importance, in the era of globalisation, the role of government remain a critical factor (cf. also Wade, 1996; Weiss, 1997).

The conclusions which may be extracted from the above mode of reasoning can be summed up in three points:[3]

(1) Globalisation is part of a multitude of complex change processes which to the large majority of developing countries imply marginalisation and exclusion along with only partial integration into a world economy;

(2) Economic activities remain 'grounded' in specific locations and trans-border economic transactions reveal patterns of regional and geographical concentration. The 'end of geography' is not in sight.

(3) States continue to perform critical roles by influencing the conditions which determine attractiveness and competitiveness of national economies, although they differ considerably in terms of their capabilities and capacities for affecting national economic activity as well as trans-border transactions. The reports on the 'end of the nation state' are greatly exaggerated (with inspiration from Mark Twain and Robert Wade).

The following section aims at turning these very general observations into more specific statements about the implications of global change processes and major actors for industrial development in different types of developing countries, i.e. countries with dissimilar economic structures and differences in terms of state autonomy, capability and capacity.

[3] For a more elaborate treatment of the second and third points, see Dicken, 1998, Chs. 1 & 3.

Implications of the Global Change Processes for Industrial Development in Different Types of Developing Countries

Industrial development, in particular, is affected by changing global and regional conditions (cf. UNIDO, 1996). But the impact upon industrial development may also be seen as a more general illustration of the broader issues referred to in the previous section.

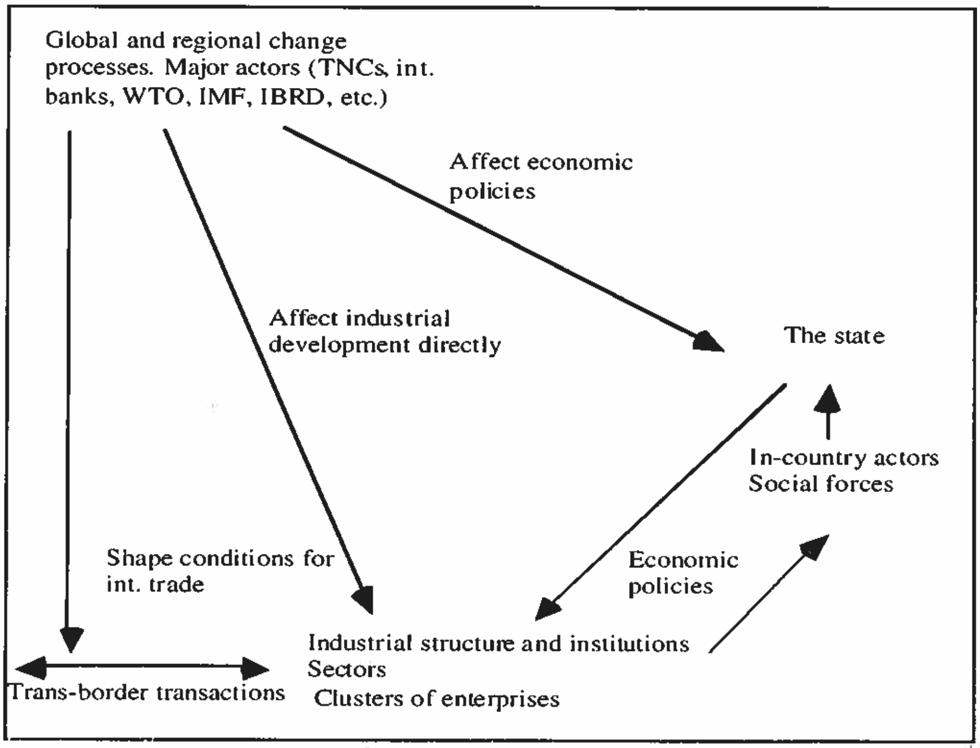
The global processes of particular relevance in relation to industrial development in Third World countries are international trade, foreign direct investment, portfolio investment and financial flows in general, including foreign aid.

The major actors involved may be categorised into private sector actors - such as transnational corporations and international banks and other financial intermediaries - and public sector actors, including the World Trade Organisation (WTO), the IMF, the World Bank and the OECD.

These actors and the global change processes affect developing countries in at least three major areas: First, they shape the conditions for international trade and other trans-border transactions; second, they affect industrial development directly by establishing the basic parameters for competition even within developing countries; and third, they affect national economic policies by significantly reducing the scope for government intervention and by putting pressure on them to deregulate, liberalise and privatise. Figure 2 illustrates these influences.

The private actors have proved very powerful vis-à-vis most developing countries. The 1997 financial crises in East and Southeast Asia are clear indications of the important positions of financial intermediaries and international investors. The economic powers of transnational corporations have been acknowledged for many years. These corporations derive their strengths partly from the resources under their control; partly from the manner in which they are organised and operate.

Figure 2: Illustration of external influences on industrial development and government policies



To illustrate the resource powers of transnational corporations one may note that the annual turnover of General Motors is equal to about three times of Pakistan's gross domestic product (GDP). General Motors and Ford have a combined turnover as large as the GDP for the whole of Sub-Saharan Africa. With respect to their mode of operating, the important point to note is that they can combine inter-firm and intra-firm transactions essentially according to their own interests and chosen corporate strategies. When choosing intra-firm, hierarchically-governed transactions to replace market-governed exchanges they acquire extensive control over pricing and resource allocation which is often very difficult to influence even by powerful states in host countries. The mechanisms available to the corporations include transfer prising and shifting of declared profits to countries of their own choosing. The processes of resource allocation and capital accumulation within transnational corporations are thus essentially externally determined, as seen from the point of view of host countries in the Third World. The corporations may opt for net transfers of resources to host countries; declaring of profits for taxation in these countries; expansion of branches and subsidiaries and activities under their control; etc.; but the important point is that decisions in these respects can be taken in accordance with parent companies' interests, strategies, and priorities which need not, and often do not, correspond to host country interests.[4]

While the big companies and other private actors may confine their exercise of power to selected developing countries, the international public organisations play special roles by setting the 'rules of the game' for most cross-border transactions; for host-country interferences with such transactions; and even with respect to state regulation of foreign investment within the host countries.

The various norms and regulatory mechanisms contained in the GATT/WTO international trade framework are of special significance here. Another important part of the contemporary 'rules of the game' is the broad consensus among official development agencies, the IMF and the World Bank on conditionalities regarding appropriate national economic policies and the institutional arrangements for their implementation - the so-called 'Washington consensus'.

The overall objective of GATT was to promote international trade by removing various forms of barriers. More specifically, the aim was to convert non-tariff barriers into tariffs and then gradually lower the level of tariffs for an increasing range of commodities. GATT further aimed at promoting non-discrimination and universalisation of trade relations. The most important mechanisms in this context were 'the most-favoured nation principle' and the 'national treatment rule'. According to the former principle, trade concessions agreed upon between any two countries should be automatically extended to all other countries who had signed the GATT agreements. The 'national treatment rule' requires that imported foreign goods are treated on par with domestic goods (cf. Dasgupta, 1998, p 141 ff.; Dicken, 1998, p 90 ff.). These and other principles and rules were incorporated into the very extensive document which, in 1994, replaced GATT by the WTO. Unlike GATT which was a treaty or trade accord, the WTO is a membership organisation with powers to

[4] I have dealt extensively with these issues both in general terms and in specific relation to India in Martinussen, 1988. Cf. also Martinussen, 1992.

adjudicate and introduce sanctions against member states that fail to comply with the rules. More than 120 countries have joined the Organisation.

The WTO ties together the various trade accords negotiated under GATT auspices, including those agreed to during the Uruguay Round (1986-94). On the face of it this does not appear to change the conditions for developing countries in any significant manner. However, while these countries could previously avoid to comply with GATT obligations under various concessions, they have to comply with WTO obligations as member states.[5] Moreover, these obligations now comprise some new features which, in practice, imply added constraints and far-reaching demands on policy making in developing countries. Most important are the stipulations referred to as Trade-Related Investment Measures (TRIMs) and Trade-Related Aspects of Intellectual Property Rights (TRIPs) (cf. Dhar, 1995).

During the Uruguay Round negotiations, the United States in particular argued for prohibiting or restricting the use by member states of policies that in their view were biased against foreign investment such as local-content rules, export performance requirements, etc. It was argued that such measures restricted or distorted international trade. Many developing countries, on the other hand, saw such measures as essential elements of their industrial development strategies. They also regarded TRIMs as necessary for restraining transnational corporations from indulging in restrictive business practices.

The outcome of the negotiations was more favourable to the highly industrialised countries of the OECD than to developing countries: The TRIMs agreement prohibits measures to the extent that they are trade-distorting, i.e. if these measures violate the 'national treatment rule' or imply any use of quantitative restrictions or other non-tariff barriers. The TRIMs agreement include no attempts to limit the potential trade-distorting activities of transnational corporations (Morrissey & Rai, 1995, p 704; Dicken, 1998, p 99). According to some Third World scholars, it is the TRIMs agreement in the WTO regulatory framework that imposes the most severe restrictions on the sovereignty of developing country member-states (e.g. Oommen, 1994, p 10).

Other scholars, however, regard as the most serious concern for developing countries the agreement on TRIPs (Dasgupta, 1998, p 170 ff.). This agreement establishes an international intellectual property rights regime and requires member-states to amend their own laws in conformity with the

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[5] Also the WTO does not permit 'grandfather rights' relating to laws passed before 1947 as under GATT rules. Only waivers that are explicitly permitted by the WTO agreement continue to apply. (Dasgupta, 1998, p 177).

agreement within a given time frame (generally five years for developing countries; ten years in the case of pharmaceuticals and a few other areas). The TRIPs agreement extends patent rights to 20 years and thus allow the technology exporting countries an economic rent of their patented technologies for a considerably longer period of time. The TRIPs provisions of the WTO agreement, unlike previous rules, disallows patenting of alternative processes, when the product concerned has already been patented. This will affect thousands of firms in the developing countries, particularly in pharmaceutical and chemical industries, which use locally invented processes, often more labour-intensive and with lower-cost inputs, to produce patented products. In more general terms, the TRIPs agreement is likely to strengthen existing trade monopolies and adversely affect technology transfer to developing countries (Dhar & Rao, 1996). Others argued that the new patent regime will result in rising the costs of industrial development in technology importing countries, partly because of increased royalty payments to patent holders abroad, partly due to increased prices of products manufactured under licence. This, in turn, will increase inequality in the global distribution of income and further widen the economic gap between North and South (Griffin. 1996, p 112).

Without going further into these matters it appears warranted as a preliminary conclusion to note that the 'rules of the game' now established under WTO auspices in certain important respects introduce added biases against developing countries dependent on foreign investment and import of technology from more advanced industrial countries. They also introduce added constraints on policy making in the countries of the South.

The biases and constraints are further compounded due to the fact that most rules and standards established and sanctioned by the IMF and the World Bank apply only to countries which borrow from these institutions, i.e. most developing countries and countries in transition - but not the industrialised member countries of the OECD. Therefore, although the global change processes under the new 'rules of the game' may potentially reduce national and state autonomy in general, it is evident that the outcome is different and more serious for borrowing countries.

The conditions in borrowing countries, however, vary considerably. The curb on the use of strategic policies in support of national industrialisation is likely to vary among the developing countries depending on their economic situation and the strength of their governments. At one extreme we find strong developmental states, such as in South Korea, with a well-developed coherent bureaucracy, a homogeneous administrative culture and strong linkages between government and business (Evans 1989; Evans 1995). At the other extreme we find weak states, as in most of the Sub-Saharan African countries, where non-institutionalised government prevails, where personalistic relationships and social networks take precedence over rules, and where paramount leaders rule more in their personal capacity than in their capacity as office-holders within the governmental set-up (Jackson & Rosberg 1982; Sandbrook 1986). In between these two extremes we find intermediate states, as in India, Thailand and Malaysia, with varying capabilities and capacities for policy implementation. Strengths and weaknesses may vary from policy area to policy area as well as over time, but the variation from country to country appears to be the most significant, at least with respect to policies affecting industrial development.

This country-related variation calls for a differentiating approach with regard to theory formation concerning the impact of global change processes and global actors upon national development patterns. It further calls for a differentiating approach to the study of realistic policy options available to decision-makers in relation to industrial development.

The large number of smaller and less industrialised countries are essentially unable to affect the global processes and the major actors at all, and should their governments decide not to comply with the 'rules of the game' this is likely to harm seriously their prospects for industrial development. These countries are not only dependent on international borrowing, foreign investment and import of technology. They may also be characterised as aid dependent societies with weak states. The following section briefly reviews how their policy-making is seriously limited by external constraints.

External Constraints on Aid Dependent Weak States

Weak states are weak in several respects - essentially at every stage of the policy process from demand aggregation over decision-making and implementation to achieving the intended impact in society (cf. Migdal, 1988; Evans, 1989). More specifically, weak states are characterised by:

(1) Low levels of legitimacy: decisions are not widely accepted as authoritative and binding upon all citizens.

(2) They have very little capacity for independent analyses of their own development problems as well as for designing adequate strategies.

(3) They have low capabilies to collect taxes and spend government revenue in a planned way.
(4) Their administrative capacity is insufficient to implement decisions taken or policies adopted by the government.
(5) They have very limited influence on the pattern of societal development in their countries.

Weak states - and there are more than a hundred of them by almost any standard - are at the same time dependent on foreign aid and external borrowing, including borrowing from the IMF and the World Bank. This dependency translates into external constraints on their policy-making in the broad sense of the term - and increasingly so over the last decade. This is because the international lending agencies as well as the major donors have added more and more conditionalities.

Originally, development assistance - on a grant basis or as loans - was provided without specific conditions. Allied or like-minded recipient countries were given preference by the major donor countries who, in turn, expected diplomatic and possibly military support if and when required. Aid recipients were expected to behave in a loyal manner vis-à-vis their donors - in their voting in the UN; by granting military facilities; and by welcoming foreign direct investment and trade. But the main point is that these types of conditionalities were gradually replaced by more and more specific and more and more comprehensive conditionalities from the late 1970s and onwards.

The stabilisation programmes of the IMF and the structural adjustment programmes of the World Bank embodied neo-classical strategies as recommendations and loan conditionalities. This implied pressure on recipient governments to pursue specific economic policies.

After the ending of the Cold War, new conditionalities were added concerning good governance, administrative reform, democratisation and compliance with human rights policies.

Packages of conditionalities were introduced to ensure donor influence over the entire sphere of development politics, policy-making, and implementation. The scope of coverage was extended from 'good economic governance' to 'good governance' in a much broader sense, and further on to 'good politics' which even comprised the interrelationship between state and civil society (cf. Stokke, 1995; Doornbos, 1995).[6]

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[6] These developments are dealt with extensively in a Danish publication (Degnbol-Martinussen & Engberg-Pedersen, 1999, especially Chs. 4 & 12).

With the intensified demands from donors concerning both policies and institutional structures and procedures for policy implementation there is a tendency to reduce the room for manoeuvring for the political leadership of weak and poor states. This may be fully justified from a perspective of poverty alleviation, but the outcome is difficult to accommodate with the ideology of national ownership and democratisation - which is also promoted by most donors. Paradoxically, the specific demands concerning recipient government policies and their administrative set-up are likely to interfere with processes of democratisation, because weak states may be forced to pay more attention to accommodating donor demands than to demands from their own citizens and their (often weak) organisations. When aid accounts for a substantial proportion of government income, often more than half of that income, accountability may easily shift from citizens to donors.

The critical questions emerging from these observations are at least three:

(1) How far can donors go in terms of demanding specific development policies and institutional arrangements for their implementation without violating their declared support for national ownership?

(2) How well equipped are the donors to determine what kind of policies and institutional structures are the most appropriate, considering that experiences from industrialised countries and successful developing countries vary considerably? (cf. Stiglitz, 1998)

(3) How well equipped are the donors in these areas, considering also the diversity and complexity characterising developing countries?

A major concern in this context, as seen from the point of view of developing countries, is that the IMF, the World Bank and bilateral donor agencies tend to force recipient countries to pursue policies which are not adapted to their specific circumstances and capacities. A second, related, concern is that the global actors and bilateral donor agencies tend to treat all Third World countries as if they are faced with the same kind of development problems and essentially have the same policy options. This is wrong on both counts.

Developing countries face very different development problems due to many factors, including their basic economic and industrial structures, the size and nature of their markets, and the varying forms of world market integration. Moreover, states in developing countries are very different in terms of their capabilities and capacities to implement economic policies and influence societal development in general (as noted in section 1 above).

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Concluding Observations

The review of the debate on relative state autonomy in the 1960s through the 1980s did not produce any strong conclusions on the degree of autonomy available to policy-makers in developing countries. Answers relied too heavily on the approach and the conception of the state adopted.

The outline of global and regional changes, on the other hand, appears to clearly indicate that as a general trend the external constraints on policy-making in most developing countries have narrowed the room for manoeuvring. This is particularly so with respect to aid dependent weak states which constitute the overwhelming majority of Third World states.

Within the broader themes and perspectives of this volume, as outlined at the beginning of the paper, the above sections have confined themselves mainly to looking at the impact of global processes and actors upon state autonomy and policy-making in developing countries, notably in relation to industrial development. I would like to conclude, however, by stressing that when studying external constraints and their impact in greater detail, one can not avoid looking carefully at intra-societal conditions in a much broader sense than indicated with references to economic structures, state capabilities and capacities, etc. Societal embeddedness of states should be seen as more complex and encompassing. To illustrate this point, let me briefly mention two types of tendencies concerning intra-societal changes which are likely to significantly affect how external conditions and actors influence policy-making.

Since the ending of the Cold War, ethnic conflicts have been allowed to escalate in several developing countries - allowed to in the sense that the ending of superpower rivalry has also resulted in the withdrawal of military and economic support for several autocratic regimes, especially in Sub-Saharan Africa. This has opened up wider opportunities for opposition forces to challenge their governments. In many countries, again especially in Africa, opposition forces have build their strategies mainly on ethnic cleavages and antagonisms. In some countries ethnic confrontations have resulted in the break-down of the government; in other cases they have seriously limited the scope for policy-making and forced on the government non-developmental allocations of resources.

In addition to ethnic foundations of opposition - and this is the second important tendency - we have over the last decade experienced a trend towards mobilisation on the basis of religion; as in the case of Islamic fundamentalism in the Arab World, Turkey, Pakistan, Bangladesh and Malaysia; or as in the case of Hindu nationalism in India. The outcome has been similar in the sense that these powerful religious movements have introduced new parameters for policy-making in the countries concerned.

It is more difficult to generalise about these and other changes with respect to internal constraints than when studying global and regional conditions and changes. Internal conditions vary extensively - but exactly for that reason we also have to be careful when trying to generalise about the impact of global and regional changes, because impact is heavily influenced by the internal conditions. Even the strengthening of Islamic fundamentalism and Hindu nationalism may be seen partly as a response to globalisation in the form of the spreading of Western/Northern investment, technology, products, institutions and associated values. This observation may serve as an important reminder that extra-societal influences may contribute to strengthening 'non-conventional' or 'unexpected' responses and increase global diversity in policy-making, rather than harmonisation and universalisation.

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