

Susan Strange

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Trade as a Secondary Structure

(Her text): “Structural power, on the other hand, is the power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises and (not least) their scientists and other professional people have to operate....Structural power, in short, confers the power 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...The four sources, corresponding to the four sides of the transparent pyramid, are: control over security; control over production; control over credit; and control over knowledge, beliefs and ideas.

Thus, structural power lies with those in a position to exercise control over (i.e. to threaten or to preserve) people’s security, especially from violence. It lies also with those able to decide and control the manner or mode of production of goods and services for survival. Thirdly, it lies—at least in all advanced economies, whether state-capitalist, private capitalist or a mix of both— with those able to control the supply and distribution of credit. Such control of credit is important because, through it, purchasing power can be acquired without either working for it or trading for it, but it is acquired in the last resort on the basis of reputation on the borrower’s side and confidence on the lender’s. Fourthly and lastly, structural power can also be exercised by those who possess knowledge, who can wholly or partially limit or decide the terms of access to it. This structural power in particular does not easily fit into the layer-cake, club-sandwich model because it may very easily lie in part beyond the range and scope of the state or any other ‘political’ authority. Yet its importance in political economy, though not easy to define or describe, is not to be underrated.

The bottom line, or conclusion, of this approach to the question of power in the international economy seems to me to throw serious doubt on an important assumption of much contemporary writing on international political economy, especially in the United States. The assumption is that the United States has lost hegemonic power in the system and that this is why, in plain terms, the world economy is in such a state of instability, uncertainty and even disorder that economic forecasts are unreliable, if not impossible; it is why there is such widespread gloom and even despair over the prospects of solving contemporary problems of international economic relations. But, to me, using this model or analytical framework, the conclusion seems inevitable that the United States government and the corporations dependent upon it have not in fact lost structural power in and over the system. They may have changed their mind about how to use it, but they have *not* lost it. Nor, taking the four structures of power together, are they likely to do so in the foreseeable future. Not all readers will agree with this conclusion of mine. But even if they do not, I would still contend that their assessment of power in the international political economy will be more realistic if they adopt a structural approach such as, or similar to, the one outlined above and developed later in the book than if they stay with conventional notions of relational power—still less if, with the theoretical economists, they try to ignore power altogether. The rest of this book is an attempt to explore and develop each of these aspects or sources of structural power in the world political economy. It is essentially an attempt to break right away from the politics of international relations approach which I find biased and constricting. It tries to develop an alternative approach based on the four fundamental sources of structural power. Once these are understood, it can be shown that certain subjects of discussion in international

political economy, such as trade, aid energy or international transport systems, are actually secondary structures. They are not as they are by accident but are shaped by the four basic structures of security, production, finance and knowledge.” (...)

“The result of this dependence on the primary power structures is that exchanges in international trade are not simply the outcome of market forces, of relative supply and demand. Rather, they are the result of a complex and interlocking network of bargains that are partly economic and partly political.” (...) “In short, the common weakness of trade theories, whatever their ideological bias may be, is that they seek to explain and to treat trade in too great isolation. They do not sufficiently take into account the impact on exchange relations between states (as on exchange relations between people) of the four major structures of political economy. If such exchange relations are the result of variable influences coming from the four structures, it is not surprising that the search for a general theory to explain all trade links in the world economy proves unrewarding and unsatisfactory.”

Susan Strange, *States and Markets*
(Pinter Publishers Limited. London. 1988), 27–28;161,179.

Susan Strange had a background in economics. She initially worked as a journalist but then moved to academia to dedicate herself to full-time research. She first held a senior research fellow position at Chatham House 1974, and later she held the chair of International Relations as Montague Burton Professor of International Relations at the London School of Economics (1978-1988). She was not only the first woman to hold such position, but also, it was while holding this position that she developed the most important part of her theoretical contribution to the field.¹

Susan Strange’s work came as a reaction to the scholarly position that evolved since the 1970s and that proclaimed that the US had lost hegemonic power. Realist scholars were arguing that the hegemonic decline had a connection with the disintegration of

¹ Susan Strange, graduated in Economics from the London School of Economics (LSE), and then started as, what would prove to be, a successful journalist. She was White House correspondent for the Observer, reporter for the Economist and taught as a Lecturer at University College London in 1949. She moved to academia to dedicate herself as full-time researcher. She held a senior research fellow position at Chatham House and was co-founder of the British International Studies Association in 1974. She was the first woman to hold the chair of International Relations as Montague Burton Professor of International Relations at LSE (1978-1988), and established the first IPE graduate program of that institution in 1984. She was also a Professor of International Political economy at the European University Institute in Florence, Italy (1989-1993). Later, she was the President of the International Studies Association in 1995. Until she died in 1998, she held the Chair of International Relations and Professor of International Political Economy at the University of Warwick. Until today, in honour of her work, the British International Studies Association holds an annual ‘Susan Strange Book Prize’. Paul Langley ‘Power-knowledge estranged. From Susan Strange to poststructuralism in British IPE’ in *Routledge Handbook of International Political Economy (IPE)* Eds Mark Blyth. (Routledge. 2009); Christopher May ‘Strange Fruit: Susan Strange’s Theory of Structural Power in the International Political Economy’ *Global Society* 10:2 (1996): 167-189; British International Studies Association; Gautam Sen ‘Obituary: Professor Susan Strange’ *The Independent*. December, 8, 1998.

international regimes (Gilpin 1975, Krasner 1983).² In a similar sense, liberal scholars were claiming that without American leadership, new ways for cooperation were necessary (Keohane 1984). Strange, in her article entitled 'The Persistent Myth of Lost Hegemony'³ questioned the two assumptions on which these propositions were built. First, that the US had lost power and second, whether that loss of power was the reason for the disorder of the system.

It was in her work *States and Markets*, that she elaborated more on her argument and laid down the theoretical framework that was contrary to the declinist scholarship. Strange argued that the US 'have *not* in fact lost structural power in and over the system'⁴ because the US kept power that derived from four main structures of the international political economy. The four structures that Strange identified, and from which the source of power was derived, were: security (which gives control to those that can provide protection against violence), finance (which gives control to those in a position to provide credits), production (which gives control to those able to decide and control the manner or mode of production of goods and services) and knowledge (which gives control to those managing communication and had the ability to deny access, acquire or develop knowledge or information).

She spelled out structural power as "the power to shape and determine the structure of the global political economy within which other states, their political institutions, their economic enterprises and (not least) their scientists and other professional people have to operate."⁵ She further writes: 'Structural power, in short, confers the power to decide how things shall be done, the power to shape the frameworks within which states relate to each other, relate to people, or relate to corporate enterprises.'⁶ Strange's view of structural power has certainly carried weight in the discipline of IPE. Indeed, Guzzini (2013) had argued that of Strange's work 'structural power' was 'her most important conceptual contribution'.⁷

With regard to trade, her paradigm certainly included it, albeit with a depreciated emphasis. Trade was mentioned in *States and Markets* but Susan Strange regarded it as a secondary structure. The reason for this was, according to Strange, that trade was shaped by the aforementioned main structures. For her, trade was an 'interlocking network of bargains', or an exchange structure, which was inherently economical and

² Robert Gilpin, *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975)

³ Susan Strange 'The Persistent Myth of Lost Hegemony' *International Organization*, 41:4 (1987): 551-574

⁴ Susan Strange *States and Markets* (London. Pinter Publishers Limited 1988), 28.

⁵ Strange *States and Markets*, 24-5.

⁶ Strange *States and Markets*, 25. Although in a later work, in *Retreat of the States*, she gives a definition of her understanding of power as 'Power is simply the ability of a person or group of person so to affect outcomes that their preferences take precedence over the preferences of others.' Susan Strange *Retreat of the State* (Cambridge University Press 1996), 17.

⁷ Stefano Guzzini *Power, Realism and Constructivism* (Routledge Abingdon, Oxon 2013), 175.

political. She stated “The result of this dependence on the primary power structures is that exchanges in international trade are not simply the outcome of market forces, of relative supply and demand. Rather, they are the result of a complex and interlocking network of bargains that are partly economic and partly political.”⁸

Trade, as Strange conceptualised, involved bargaining between trading partners (in unequal positions in regards to finance and technology), that involved a trade-off between security and commercial interests, domestic political bargaining over the national market and corporate decision making in terms of sources of supply. However, because of the relevance that she placed on these ‘interlocking bargainings’, the role of international organizations and regimes is something that she disregarded completely. She further rejected the idea of considering trade a regime, and instead, proposed to look at it as the reflection of the interests of the most powerful states, in other words, as she called it, their ‘rulebooks’.

Strange acknowledged that the economic literature focused on international trade in terms of the consequences of trade and political results but she claimed that trade is also important as it worked within states but also within world economy. She therefore proposed to look at some facts related to trade and only then, analyse the theories around it. These facts relating to trade that Strange analysed were:

(i) *Uneven growth*: She stated that the security structure influences trade. She gave the contrasting example between the period before WWI, in which trade grew rapidly in spite of protectionist measures by industrialised countries, and the period of inter-war, in which trade was slow to recover.⁹

(ii) *Changing content*: Trade was also affected by the change in the production structure. She portrayed the claim that David Ricardo’s view was obsolete because trade could no longer be viewed in the form of exchange of goods. Trade had to be considered as a more complex exchange of manufactures, electronic products, and services. She argued this position by pointing out that the primary raw materials, especially those from developing countries were not important for trade because it was not as relevant for other countries, as manufactures were. The sole exception, however, was oil. She further claimed: “International trade, in short, is a moving picture, never static in its composition from one year to the next, but always reflecting –just as it did in the ancient world, in the Middle Ages, in the eighteenth and nineteenth centuries – the purchasing power of the relatively rich and the relatively powerful.”¹⁰

(iii) *Unequal participation*: The participation of countries in global trade was economically unequal because of the (and often pronounced) difference in purchasing power but also

⁸ Strange *States and Markets*, 161.

⁹ Strange, S. *States and Markets*, 167.

¹⁰ Strange, S. *States and Markets*, 168.

politically, because of the countries' capacities, as in terms of territory and population. Strange also mentioned this was a point where the role of security became evident: she gave the example of how the Cold War policies in the US were restricting import and trade from the USSR or its allies, and later the British 'concessions necessary to US post-war trade policy' in the negotiations of the Bretton Woods Agreement in 1943.¹¹

(iv) *No standard rules*: Strange noted that even if both, industrialised and developing countries, constructed the internal rules of exchange within their countries as to respect security, stability, equity, with rules and laws over their market system, their self-interest would result in a clash when exchanging internationally. This clash would occur, not because the scenario is different from what they internally are doing, but because of the differential capacity between the partners. When exchanging internationally, the difference will be apparent in the sense that it will favour those advantageous in the power asymmetry which will carry more weight in those exchanges. Therefore, she claimed that the structure of exchange (trade) will always favour more industrialised countries because there will always be a power asymmetry.

(v) *Terms of trade*: Finally, she also highlighted that the terms of trade would vary from sector to sector in international trade, and also between domestic and international trade. She gave the example of the difference between state producers of raw materials and how the commodities prices can vary, and the producers of manufactures which determine their prices (and how those prices are arranged differently). She further stressed the role of the internationalization of the production, i.e. the role of transnational companies which 'is internalizing trade across political frontiers'.¹² All of this production, Strange claimed, required complex negotiations in terms of tax advantages, labour union, transport systems and market destination.

Ergo, considering all these issues, and by viewing the facts of trade in the aforementioned way, she opens up the revision of the then existing trade theories. She discusses the liberal theory first because it famously argued the comparative advantage in that 'both countries will maximize wealth if the more efficient country specializes in the production of that good in which it has greatest comparative advantage.' She had already mentioned that the focus on goods was not sufficient. Rather than describing the 'vast literature developed by neo-classical economists' as she puts it, she mentions two derivative arguments. She mentions Jacob Viner's Customs Union theory, which stated that "the net addition to welfare/wealth from such an exclusive arrangement has to be calculated by comparing the trade-creating effects of the liberalization effected between them with the trade diverting-effects of trade transferred from more efficient producers outside the group to less efficient ones within it. If the sum is positive, the customs union can be defended on liberal principles as second-best solution to multilateral liberalization."¹³ She

¹¹ Strange *States and Markets*, 170.

¹² Strange *States and Markets*, 173.

¹³ Strange *States and Markets*, 176.

also mentions the Heckscher-Ohlin model that stated “comparative efficiency of countries in producing different goods is derived from their differential endowment with factors of production - capital and labour. Trade between developed and developing countries is explained by the fact that the former are well endowed with capital, the latter with labour.”¹⁴ Strange argued these models did not hold and refers to empirical work that for instance pointed to the United States, in which labour was scarce and capital accessible and cheap, and yet “it exported products that required less capital per worker-year than goods imported into the United States.”¹⁵ She further concludes that in these there is a disregard about the security and its relevance for states. Strange claimed that security is essential for states and that it was very unlikely that states will disregard their interests about security in this area.

With regard to the realist theory, she praised their awareness about the actors who were late with industrialization, would not catch up in the competition. In such a race, she claimed, state intervention and commercial protection would be needed. Finally, in what regards to structuralist or dependencia theories she mentioned that their assumption is that the market is not neutral and that history and uneven economic development had a bias against developing countries. This bias was intrinsic to the system. As a result, a compensatory policy towards these countries is therefore justified and mentions Prebisch’s work on relative decline in primary goods and asymmetric terms of the market for the Third World.¹⁶ She claimed that variations of this thought do not agree on the ultimate causes of inequality and dependence.

In this review of such theories, Strange claimed that none of them could hold against the previously mentioned facts of trade. Strange criticized that in such review there was no account for structural convergence of national economies nor multinational production, nor divergence of policy responses, nor diverse performance of developing countries. Therefore, she claimed that there was no explanation for the variation in state markets relationships concerning trade in different goods and services.

Strange said that this ‘weakness’ derives from the fact that trade was treated in isolation, without taking into account the impact of the four structures of political economy. She therefore stated: “If such exchange relations are the result of variable influences coming from the four structures, it is not surprising that the search for a general theory to explain all trade links in the world economy proves unrewarding and unsatisfactory.”¹⁷

Strange concluded her vision of trade by stating that there has to be more attention paid to the facts and trade policies, and to the different sectors and the different patterns of

¹⁴ Strange *States and Markets*, 176.

¹⁵ Strange *States and Markets*, 176.

¹⁶ Raul Prebisch, Executive Secretary, UN Economic Commission for Latin America and the Caribbean (1950-1963), later Secretary General of UNCTAD.

¹⁷ Strange *States and Markets*, 179.

trade arising out of them. The security structure shows that the alliances and conflicts can either bring together or distance the trade partners. The production structure shows how the short life-span of products can drive their producers seek wider markets. The financial structure shows that whether trade is done in national currencies or credit is created and mobilised internationally also affects trade. The knowledge structure shows that the accelerating rate of technological advances affect in turn the products and production processes and they too will impact patterns of trade.

Strange clearly tried to provide a different perspective to the discipline, but in doing so, she sometimes became too polemic. There are some common grounds with parts of the American scholarship that she debated with. For instance, in her understanding of trade, she made considerations of 'interlocking bargainings' and asymmetries of power, and how that would influence the terms of trade. Similarly, she also stressed the necessity to analyse sector-by-sector as the conditions would differ among them. These considerations are certainly in line with the effects of the asymmetrical interdependence relationship and issue-areas exposed by Keohane and Nye in 1977.¹⁸

Furthermore, although she spelled out only structural power as particularly important, she did mention how the differential capacities of states, especially those of industrialised and developing countries, will affect the structures of exchanges between them. This can also be correlated with Waltz (1979), Keohane and Nye (1977) and Krasner (1985) in their considerations of structural contexts that had to do with the distribution of capacities among units (states).¹⁹ On the other hand, her main criticism, even by these scholars is that she disregarded international regimes completely (Krasner 1983 and Keohane 2000).²⁰ Nevertheless, sometimes with adjustments or directly, her work continues to be applied in the scholarship.

I will conclude the chapter with one of Strange's final reflections on trade, which takes into account the influence of the four main structures of international political economy –structural power: "But the net result is that because the impact of any one primary structure on the trade prospects of any one country at any one time will vary so much, the combined effects on that country of all four structures, some being favourable to it and other unfavourable, will vary even more. No two countries' prospects –its opportunities and its constrains, the costs and benefits-will be the same, and even the same country's prospects will change with changes in global structures."²¹ This can be

¹⁸ Robert O. Keohane and Joseph S. Nye Jr., *Power and Interdependence: World Politics in Transition* (Boston, MA: Little, Brown and Company, 1977).

¹⁹ Stephen Krasner *Structural Conflict. The third World Against Global Liberalism* (University of California Press. Berkeley and Los Angeles. 1985); Keohane and Nye *Power and Interdependence*.

²⁰ Stephen Krasner 'Structural causes and regime consequences: regimes as intervening variables' in *International Regimes* Edited Stephen Krasner (Cornell University Press 1983); Robert O. Keohane 'Foreword' in *Strange Power. Shaping the parameters of international relations and international political economy*. Edited by Lawton, T., Rosenau, J and Verdun, Amy (Ashgate. 2000).

²¹ *Strange States and Markets*, 181.

seen as more than just a statement about trade, as was the case with much of her work, I believe it was something that she left us to think about when we try to analyse trade.