5. Globalization, state transformation and global governance

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INTRODUCTION

In this chapter, we examine state transformation as a core aspect of the changes in governance wrought by globalization. The early debate over globalization and the state was often framed in zero-sum terms. Susan Strange (1996), for example, argued that the state was losing authority and power to markets and international organizations, while others countered that states remained powerful (Weiss 1998). Today it is more frequently accepted that this framing is unhelpful. Globalization is not an 'exogenous shock' to which states and their societies must respond (Farrell and Newman 2014). Rather, it involves *changes* to the state and to its institutions that enable cross-border economic integration, or that seek to manage the transnational challenges this process generates. Globalization, therefore, advances *through* state transformation, blurring the distinction between 'domestic' and 'international' politics (Hameiri 2020).

This occurs because globalization involves the unleashing of capitalist dynamics previously 'caged' within national borders in the post-war decades of Keynesianism and Fordism. This requires the reconfiguration of national states to enable and assist the rescaling of investment, production and trade, because markets do not emerge spontaneously but require active state intervention to create and maintain. State transformation also occurs because the increase of transnational flows gives rise to challenges that appear beyond the capacity of individual states to address, requiring new forms of transnational governance. This includes capitalist dynamics themselves, but also their by-products, such as environmental degradation, and activities that piggy-back on the networks and connectivity spawned through global capitalist development, such as money laundering and transnational crime.

In an echo of the 'zero-sum' debate described above, many International Relations (IR) and International Political Economy (IPE) scholars wrongly assume that tackling such problems entails the formal relocation of powers, capacities and even sovereignty to multilateral organizations. Consequently, they mistakenly measure the extent of governance change by the extent to which states relinquish their authority to supranational bodies. Since little formal supranationalism has emerged, many are now lamenting that global governance is in crisis, 'failing when we need it most' (Hale et al. 2013).

Conversely, many scholars now argue that the primary way in which transnational governance is produced today is through further transformations of state apparatuses: their reconfiguration to serve regional or global agreements and regulatory standards (e.g. Hameiri and Jones 2015b; Farrell and Newman 2016; Hameiri and Jones 2016). Through 'global governance as state transformation' (GGST), powerful national and international regulators generate regulations by fiat, then pressure and/or induce states to adapt their domestic institutions to meet these new standards. Multilateral institutions are often still involved, but predominantly in a 'meta-governance' capacity – the 'governing of governing' (Jayasuriya 2004; Gjaltema et al.

2019). This primarily entails developing rules, regulations, procedures and standards to be embedded in states' domestic governance.

Consider, for example, the governance of money laundering and terrorist financing. The main organization tasked with these issues is the Financial Action Task Force (FATF).[1] But FATF is not a supranational organization with the resources and authority to manage these problems directly. Rather, FATF specifies a complex set of institutions, processes and rules – their '40 Recommendations' – which states are expected to develop domestically. The key domestic institutions are then networked into FATF-style regional bodies, which peer review one another's domestic arrangements and help build one another's knowledge and capacity. The entire arrangement is 'enforced' through financial institutions voluntarily withdrawing access to jurisdictions that fail FATF assessments, on the basis of risk assessment. Thus, no formal supranational authority has emerged, yet global governance is undoubtedly occurring – *through states themselves*. State apparatuses have lost their purely domestic character, becoming responsive and accountable to international rules and agencies, changing their form and operation accordingly.

FATF is only one of many examples across a wide range of issue-areas, from human rights protection to climate change. Consider, for example, the United Nations' Optional Protocol to the Convention against Torture (OPCAT). OPCAT directs states to establish a national focal point – the national preventive mechanism (NPM) – and requires them to provide these bodies with 'functional independence', which is defined under another set of international rules – the 'Paris Principles' for the design of national human rights institutions (Pegram 2017: 227). Their role is to regularly examine the treatment of persons in their places of detention to ensure they are not tortured. These national regulators then report to an international 'regulatory intermediary' – the Subcommittee for the Prevention of Torture. Similarly, the Paris Agreement on Climate Change also relies on domestic implementation. After the failure of the effort to lock in national emissions reduction targets in 2009, the Paris Agreement shifted to GGST. While the agreement and related mechanisms set broad targets and standards, specific targets and implementation plans are developed nationally, while national progress towards decarbonization is monitored by the UN's panel of experts.

However, contrary to those who uncritically and enthusiastically herald the emergence of what we call GGST (e.g., Slaughter 2004; Goldin 2013), there are two serious shortcomings with this approach to governance. First, its legitimacy is highly questionable. The whole approach is justified as a necessary way to circumvent political blockages by handing power to technocratic experts who can govern problems in a coolly depoliticized manner (Goldin 2013). However, political blockages emerge precisely from political representation: where states fail to agree in international organizations, or political elites block the domestic enactment of international rules, it is because they are representing the interests of those who stand to lose out from such changes. Bypassing such 'spoilers' may seem extremely clever, but it frequently amounts to circumventing democratic processes in the name of international problem-solving. This is problematic in itself, as centuries of political theory have generally failed to locate any alternative basis to legitimize state power than the consent of the governed. But it also potentially compromises the longevity and efficacy of GGST regimes by failing to build active political support for their operation. The growing revolt against GGST regimes like the European Union is emblematic.

The second, closely related, problem is that GGST often fails to deliver the expected results, due to limitations on the extent and nature of state transformation, arising from socio-political contestation. Although GGST may attempt to evade such contestation, in practice this is rarely entirely possible, given the stakes involved in reformatting state institutions. As Gramscian state theorists like Nicos Poulantzas (1978) and Bob Jessop (1990, 2008) have long maintained, state apparatuses are never neutral: they always advance some interests and agendas over others. Consequently, transforming them to serve new global rules will often elicit struggles over how far state institutions should be reworked, and how they operate in practice. Even if no overt conflicts emerge, Gramscian scholarship has extensively demonstrated that the form and operation of state institutions is structurally conditioned by the societal distribution of power and wealth (Rodan et al. 1997, 2001, 2006). Consequently, socio-political conflicts rooted in dynamically evolving local political economy contexts will always determine how well GGST functions in practice (Hameiri and Jones 2016).

After this introduction, we begin by defining what we mean by state transformation and locate this process in the historical context of the crisis of Western capitalism in the 1970s and its aftermath. In the following section, we will examine the emergence of GGST as a mode of global governance. In the final section, we will show the significance of local conflicts over state transformation to the outcomes of global governance, using the example of anti-money laundering regulation.

UNDERSTANDING STATE TRANSFORMATION

The concept of 'state transformation' carries different meanings, depending on the state theoretical tradition one uses (vom Hau 2015). For some liberal scholars, 'state transformation' simply refers to changes in states' internal governing architecture as authority and even sovereignty shift upwards, downwards and sideways from a previously more centralized, 'Weberian' and 'Westphalian' order, with clearer hierarchies and lines of control (Rosenau and Czempiel 1992). Central governments have retreated from directly intervening to secure social, economic and political goals to a 'regulatory' role, coordinating a wide array of public, private and quasi-autonomous agents (Majone 1994). Liberals and functionalists often view these changes as a sensible response to the failures of 'command-and-control' style bureaucracies, rising societal complexity, and the emergence of transnational challenges (Slaughter 2004).

For more critical scholars, changes in statehood are fundamentally about redistributing power. Particularly in the Gramscian tradition, states are not seen as neutral apparatuses standing above and regulating society, but rather as expressions of socio-political power. From this perspective, institutions are never neutral. Because they distribute power and resources, they are always contested, sometimes even violently, by social groups seeking to entrench their preferences as policy, to empower themselves and/or their allies, and to direct resources towards favoured entities. Institutions, particularly, state institutions, are therefore seen as a contingent outcome of political struggle, or what Jessop (2008: 133), following Poulantzas, calls a 'condensation of the balance of [social] forces'. Institutional forms, such as political regimes, economic regulations, or market structures, emerge from, and transform through, social conflict. Consequently, they are systematically more open to particular interests, ideologies and strategies than to others – a feature Jessop (2008: 41) calls 'strategic selectivity'.

However, the 'balance of forces' in a given society is rarely static, especially given capitalism's dynamic, contradictory and conflict-ridden development. Class conflict, the constant revolutionizing of the means of production, the pressure to extract ever-greater surplus value from labour, the onset of capitalist contradictions, and the ceaseless expansion of commodity relations into new geographies and social domains, tend to generate rapid and significant social transformations, creating new classes and class fractions, and new 'winners' and 'losers', which may challenge existing institutional arrangements and hegemonic ideologies. Whether they actually succeed depends on their power, resources and strategies. Nonetheless, those for whom existing arrangements are beneficial will naturally resist change and may be able to limit reform, or if, reform happens, stymie the operation of new institutions.

In some cases, political elites may be able to lead institutional transformation without the involvement of subordinate forces – 'passive revolution' in Gramsci's terminology (Hameiri and Jones 2020: 15–16). However, if the underlying 'balance of forces' remains unchanged, we would expect the outcomes to be limited, because the new institutional arrangements lack active and organized popular support, while powerful social forces may be able to reconfigure themselves to capture and subvert them. An example is Indonesia's democratization in the late 1990s and early 2000s, where powerful oligarchic interests nurtured during the Suharto dictatorship were quickly able to dominate Indonesia's new democratic and decentralized institutions (Robison and Hadiz 2004). Similar dynamics occurred in Egypt and other countries in the Middle East following the so-called 'Arab spring' of 2011.

Building on this theorization of the state and institutions, 'state transformation' here refers not only to changes in the state's institutional architecture, but also, more fundamentally, to a political project seeking to reshape how political power and wealth are distributed, (re) produced and used within particular states (Hameiri 2010; Hameiri and Jones 2015b). This approach helps to make sense of the evolution of Western states since the late nineteenth century, which is central for understanding the particular form that state transformation has assumed under globalization. At the start of this period, centralizing forces associated with industrializing capitalism were consolidating national markets and 'nation states', creating the common-sense view of states as territorially-bounded 'power containers', whose authority mapped neatly onto their respective national populations and geographies (Giddens 1987). This obscured the reality that many of Europe's national economies relied upon imperialist expansion (Klein and Pettis 2020: Chapter 1), while also generating forces that were never entirely 'caged' within state borders, including transnational classes and attendant ideologies of liberalism and socialism (Lacher 2003: 529).

Nonetheless, the state's primarily 'national' organization was further consolidated after the Second World War. Underpinned by a class compromise between labour and capital, intended to avoid a return to economic depression and workers' radicalization in the context of the Cold War, national developmental-welfare states were forged across the West. In exchange for industrial and social peace, capital conceded a rising social wage, entailing rising wages and state-provided welfare, while governments managed national economies, with the input of labour unions and peak business representatives in corporatist state institutions (Jessop 2009). This system of 'embedded liberalism' was supported internationally by the Bretton Woods settlement, which aimed to assist state-managed national development (Ruggie 1982). Notwithstanding superpower interventions, this approach also spread to emerging post-colonial states, whose national consolidation was supported by strong norms of sovereignty at the United Nations and extensive development assistance. As Jessop (2009: 99) states, the initial post-war decades were thus characterized by 'the primacy of national economies, national welfare states, and national societies managed by national states concerned to unify national territories and reduce uneven development'.

The 1970s' crisis of capitalism triggered renewed social conflict that again transformed Western states and began relativizing the national scale of governance. Stagnating profit rates led to struggles over economic surplus, which were eventually resolved in favour of large-scale capital. Trade unions were attacked or otherwise defeated and corporatist state institutions dismantled, facilitating the erosion of social protection and the power of organized labour more generally. Capital was then 'unleashed' from national 'cages', facilitating industrial offshoring and financialization, which restored capitalist profits while further undermining worker power and rights (Glyn 2007).

State apparatuses were gradually reconfigured to reflect and entrench the new balance of power (Jessop 2002; Cerny 2010). The purpose of state institutions changed from securing a socially functional distribution of the economic surplus, through direct economic intervention and service provision, to ensuring global competitiveness through market-enabling regulation (Cerny 1997). This was consolidated by widespread privatization of public assets, economic deregulation and the reallocation of regulatory authority to independent or quasi-autonomous agencies such as independent central banks, whose decision-making was not subject to democratic control or contestation. Central agencies also retreated from direct, positive intervention to secure desired political and economic goals towards the 'steering' and 'negative coordination' of a wide range of agencies, which are otherwise largely autonomous in their daily operations (Cerny 1997).

This 'regulatory statehood', while most pronounced in Western states, has been observed in apparently 'Westphalian' states like China (Jones 2019), which are thought to be resistant to such changes, and in many other developing countries (Dubash and Morgan 2013; see further Chapter 8, this volume). The forces driving transformations in these contexts were somewhat different, however. In Asia, for example, state transformation has generally not been driven by efforts to undermine organized labour, which was largely crushed by Cold War authoritarian regimes. It is rather associated with the transnationalization and regionalization of production networks and investment driven by extra-regional firms, and by East Asian state and state-linked capitalist interests (Al-Fadhat 2020; Jones and Hameiri 2020). State transformation was also promoted by the International Financial Institutions (IFIs) in the wake of major economic crises in the early 1980s and late 1990s, and associated tensions within post-colonial developmental state projects, as well as in response to political demands from new groups emerging through decades of sustained economic growth (Jayasuriya 2005; Carroll 2017; Rodan 2018).

Therefore, even in East Asia's 'developmental' states, we can observe a similar redefinition of the state's role, from directly planning and executing developmental initiatives to performing a regulatory function, seeking to create pro-market conditions within which private-sector development can occur (Carroll 2017; see also Chapter 9, this volume). Even in a state like China, where political authorities retain robust authoritarian controls and state ownership of key economic sectors, the national government's propensity for direct intervention has been radically reduced, with extensive decentralization to subnational governments and substantial autonomy granted to state-owned enterprises (Jones and Hameiri 2021: Chapter 1). Moreover, increasingly these disaggregated public and private actors are networked regionally, seeking to further extend transnational capitalist development and govern the problems emerging from this (Hameiri and Jayasuriya 2011; Hameiri and Jones 2015b; Jones and Hameiri 2020).

Elsewhere in the Global South, state transformation processes are often driven by external agendas. They have partly been facilitated by structural adjustment programmes imposed by IFIs, and subsequent 'good governance' aid programmes, which have shifted from discrete, time-bounded interventions to ongoing projects of state transformation (Williams 2013; see also Chapter 2, this volume). These initiatives promoted a dismantling of developmental state apparatuses and the extensive privatization of public assets, corporations and services from the 1980s onwards, with the state retrenching to a more 'regulatory' model designed to facilitate private capital accumulation (Harrison 2004; Prashad 2012). State transformation has also been pursued through Western 'state-building' interventions, which have often been designed to contain security challenges emanating from social and political instability in 'fragile states', and frequently involve efforts to internationalize key government agencies, making them more responsive to powerful external actors, rather than their domestic constituents (Hameiri 2010).

GLOBAL GOVERNANCE AS STATE TRANSFORMATION

These domestic transformations have coincided with a rising frustration with traditional multilateralism to produce a growing shift towards GGST. Following initial liberal optimism regarding the potential of multilateral institutions after the end of the Cold War (see Barnett 1997), by the 2000s many were bemoaning the gridlock afflicting these institutions, which produced a 'global governance deficit' (Haas 2004; Hale et al. 2013). Many blamed this on rising powers like China, which were seen as reluctant to relinquish their national sovereignty (Patrick 2010; Mead 2014).

The result has been to refocus global governance towards changing the domestic operation of states. The motivations here are neatly summarized by former World Bank Vice-President Ian Goldin. Goldin argues that while global problems require global policy solutions, international organizations are too 'remote' to manage issues directly, while many international agreements are held 'hostage to domestic politics' (Goldin 2013: 49). He advises that 'coalition[s] of the willing' should instead devise global rules, then press other states to alter their domestic governance accordingly. This naturally requires they jettison the 'outdated concept of sovereignty'. The 'unitary state' must be 'disaggregated': 'transnational networks of public-sector professionals' should be formed to 'solve certain cross-border challenges, task by task' (Goldin 2013: 107, 113–114; Chayes and Chayes 1995). Empowering technocrats is beneficial because, unlike political leaders, they 'do not have to balance finding an effective solution against … competing interests'. Consequently, they can 'reach clear-headed assessments of the challenges' and 'make great headway in the harmonisation of standards'. This transnational, functional, technocratic approach aims deliberately at 'circumventing the most powerful agents in a sovereign state', and difficult multilateral negotiations – i.e., to bypass politics altogether (Goldin 2013: 114–115, 121).

Reflecting this agenda, which long pre-dates Goldin's formulation of it, state transformation has become the primary mode of global governance today. GGST occurs in three main ways: (1) the transboundary networking of state apparatuses; (2) the transboundary extension of 'governance frontiers' (Hameiri 2010), whereby powerful state agencies acquire governance functions beyond their territorial borders; and (3) the production of meta-governance by international institutions (Hameiri and Jones 2016: 798). Let us elaborate each of these in turn.

The transboundary networking of disaggregated state apparatuses has received considerable scholarly attention, including from liberals and functionalists, who see this as able to surmount the constraints of national sovereignty and domestic politics and devise global solutions to global problems (Slaughter 2004; Goldin 2013). For example, instead of developing an international treaty on banking standards or a supranational organization which governs banking directly, national regulators and central bankers interact via the Basel Committee on Banking Supervision to develop 'best-practice' regulations and promote their dissemination and harmonization across borders. Such regulators are often already insulated from democratic control at a domestic level, and through such networking distance themselves even further from their domestic populations, instead forming a transnational regulatory regime that does not sit 'above' but rather 'within' states. While celebrated by neoliberal technocrats like Goldin as a clever circumvention of 'competing interests', as Gramscian state theory emphasizes, these schemes are not neutral but rather entrench the interests and agendas of particular societal interests – in this case those of powerful financial sectors in the Global North. Anyone interested in curtailing the power of multinational banks – let alone re-domesticating capital within national frameworks, as was done in the immediate post-war decades – simply has no access to the decision-making forums of the Basel Committee.

A second mode of GGST involves the extension of powerful states' 'governance frontier' into other countries' territory. This entails a twofold transformation. First, the powerful state's institution, perhaps developed initially for purely domestic purposes, acquires an international presence and role, beyond its national borders. Second, this agency then promotes the transformation of state apparatuses within countries deemed to be the source of transnational problems, making them more responsive to international concerns. For example, following outbreaks of avian influenza in Southeast Asia in the 2000s, agriculture and health departments in the US, Australia and Japan funded projects, run via the UN Food and Agriculture Organization (FAO) and the World Health Organization (WHO), to build up surveillance and response capacities in animal and human health across the region, and especially in Indonesia (Hameiri and Jones 2015b: Chapter 4).

Finally, GGST also occurs through the use of international organizations as 'meta-governors'. Meta-governance is the production and dissemination of guidance, policies and regulations that others should follow when developing their own governance approaches; it is 'the governance of governance'. Within regulatory states, central executives often perform meta-governance functions, having retreated from the purposive direction of the state apparatus to 'negative coordination' (Jayasuriya 2001; see further Chapter 8, this volume). Rather than commanding organizations or actors to do this or that particular thing, regulatory states instead tend to issue broad guidelines and objectives, which other agencies then use to develop more detailed regulations in their particular domains, thus supposedly 'cascading' desired principles downwards. However, international organizations are increasingly involved in defining these broad guidelines and objectives, with national governments 'cascading' these downwards into their respective societies (Hameiri and Jones 2016). Thus, international organizations do not simply usurp national sovereignty and capacities; rather, they seek to shape how states govern domestically, promoting policy and institutional harmonization. International organizations also often coordinate peer review assessments of the implementation of international rules and regulations in domestic settings.

The WHO's evolution illustrates this dynamic. In the post-war decades, the WHO was focused on disease eradication campaigns, and from the 1960s, under Soviet and post-colonial countries' pressure, on supporting poorer member states to develop stronger domestic health systems (Litsios 2002; Brown et al. 2007: 84). In this period, the WHO thus formed part of a wider global system supporting a national 'state-building' process. However, in the neoliberal era, wealthy states have reconfigured the WHO, hollowing out its capacity to help build national states and shifting it towards meta-governance (Chorev 2013). They defunded the WHO, making it reliant on ad hoc donations, thereby directing it to serve the agendas of powerful countries in containing pandemic disease outbreaks that could affect them (Rushton 2011). This entailed a narrower, project-based mode of intervention around specific diseases, but also the development of international rules through which states should be reconfigured to better manage and contain infectious disease: the 2005 International Health Regulations (IHRs). Whereas the first IHRs, issued in 1969, had a 'Westphalian' character, merely requiring states to report outbreaks of six diseases and focus containment efforts on key international transit points, the 2005 IHRs specified detailed governance templates for states to follow, backed by a global surveillance network. They did not grant the WHO supranational powers to govern disease, nor was the WHO resourced to help build states' domestic healthcare capacities (Kamradt-Scott 2011; Bhattacharya 2007). Rather, the IHRs promoted the transformation of states to embed globally defined governance processes in their domestic contexts, with the WHO defining 'best practice' then monitoring compliance (Hameiri and Jones 2015b: 131–134). Even before the COVID-19 pandemic, which brutally exposed the weaknesses of this approach, the WHO's own assessments indicated that only around a third of countries had 'the capacities required under the IHR[s]' (Global Preparedness Monitoring Board 2019: 20). Ironically, some of the countries assessed to be best-prepared, such as Britain and the United States, performed worst in response to COVID-19.

As this last point indicates, outcomes from GGST regimes emerge via processes occurring simultaneously across several scales. The development and dissemination of global rules is not in itself an indication of their effective implementation within domestic settings. And even when implementation has apparently taken place, this does not guarantee that substantive outcomes will be those intended.

THE LOCAL CONTESTATION OF GLOBAL GOVERNANCE

To understand what actually happens on the ground when GGST is pursued, we must focus on the contestations surrounding the transformation of state apparatuses. Of course, GGST can also be contested at an international level – in the forums where global rules, regulations and standards are developed. For example, within the European Union, regulations, directives, decisions and budget proposals are developed by the European Commission, which has therefore become the target of massive corporate lobbying efforts as capitalist interests seek to shape regulations to their benefit. Belatedly, and in a far more limited and resource-constrained manner, other non-governmental organizations, including coalitions of labour unions, have also tried to influence this process. Key questions are also thrashed out in the closed-door meetings of the Council of Ministers and European Council.

That some legal authority is vested in the EU, unlike most examples of GGST, means that shaping outcomes at the international level is especially important in this case. Even in the EU, however, contestation does not end with agreement at an international level but may persist throughout the implementation process. Interests potentially excluded from the negotiation of global governance principles may contest their domestic enactment, limiting or skewing the state transformation process. Moreover, these struggles may themselves involve actors notionally located at different territorial scales, with technocrats from international organizations potentially interfacing with local bureaucrats and business interests (Hameiri and Jones 2015b; Hameiri 2020).

To truly understand the outcome of GGST efforts thus requires us to study socio-political contestation on multiple scales – potentially all the way down to the most local tier of governance, depending on the issue area. Anti-money laundering (AML) governance demonstrates some of these insights well. FATF's 40 Recommendations framework is arguably the most successful example of GGST. Every country on earth has signed up to them, barring North Korea and Iran. Yet FATF has no supranational or 'hard law' authority, like the EU. Neither does it govern money laundering directly. Instead, the 40 Recommendations specify in detail the legal and institutional changes that countries should undertake to tackle money laundering and, since 2001, terrorist financing. Legally, they require governments to criminalize money laundering and confiscate ill-gotten gains. Institutionally, they direct governments to establish a national Financial Intelligence Unit (FIU) as the focal point for AML. FIUs provide the main interface between international bodies and domestic agencies involved in AML regulation, like the police, prosecutors and financial regulators. They also interact with and regulate the private sector, since the active involvement of banks, legal firms and other private bodies is essential for identifying money laundering (Sharman 2011: 11). FATF coordinates periodic peer reviews of jurisdictions' implementation of the 40 Recommendations, through its network of FATF-Style Regional Bodies, and publishes the results – with negative reviews described as 'blacklisting' (see Sharman 2011).

FATF's remarkable global spread relates to the political economy of finance in an era of hyperglobalized finance capitalism. With few exceptions, all states and tradable sectors today rely on some access to the international banking system and global financial flows, making them vulnerable to any disruption in this access. The main enforcers of the 40 Recommendations are not governments or supranational bodies, but rather private sector players, especially banks, who use FATF blacklisting as a proxy measure of investment risk. Negative reviews induce banks to withdraw credit facilities, freeze accounts and even block transactions with particular jurisdictions. Investors, too, are reluctant to place their money in apparently risky jurisdictions and financial institutions. This applies equally to legally and illegally derived funds, since the very purpose of money laundering is to allow investors to use laundered funds openly. Consequently, jurisdictions with poor reputations struggle to attract large investments, even though shady investors could hypothetically hide their identity there more easily, as the case of Nauru shows. FATF 'blacklisting' led to the elimination of the entire banking sector in Nauru in the early 2000s, such that even the government had to transact via an account based in Australia (Sharman 2011). The world's most successful offshore tax havens – the Cayman Islands and the British Virgin Islands, for example – benefit from their association with Britain, which provides an impression of good governance and political stability (Van Fossen 2012: 27). This combination of banks' use of FATF ratings as proxy risk indicators, investors' risk aversion, and the highly mobile nature of global financial flows, means that openly rejecting FATF regulations entails real dangers to banks and financial assets, even in countries on the margins of globalization.

Nonetheless, the apparent adoption of FATF rules should not be confused with substantive efficacy on the ground, as large-scale studies have shown (Findley et al. 2014). Even FATF

(2020) has recently acknowledged this gap, directing peer reviewers to try to measure the actual efficacy of domestic institutions in preventing money laundering. This 'compliance gap' reflects socio-political contestations over the transformation of domestic state apparatuses. In many countries, powerful groups have directed AML institutions towards political rivals or weaker societal groups, thus receiving glowing reports in FATF peer-reviews without threatening existing power distributions (see Hameiri et al. 2018). In countries like the US and Britain, whose governments are key proponents of FATF, the interests of powerful financial-sector interests prevail. This is revealed in experiments that show FATF rules are easiest to violate in these jurisdictions, as well as recurrent scandals involving hundreds of millions or even billions of dollars being laundered by major global banks (Sharman 2011; Findley et al. 2014; International Consortium of Investigative Journalists 2020).

The example of FATF illustrates the Gramscian insight that state institutions express societal power relations, which structure their practical operation. The state-facilitated financialization of the US and British economies has firmly subordinated state power to the interests of the financial sector, as demonstrated in the post-2008 banking bailouts (Tooze 2018). This is not simply a question of direct regulatory capture, though there is evidently a 'revolving door' between the industry and important state agencies. It is also a function of the structural domination of finance over the wider economy: banks become 'too big to fail' because their survival has become necessary to support non-financial business activity and consumption. This makes it very difficult to challenge the hegemony of finance capital, or even to seriously impinge upon its interests through toughened AML regulation. Accordingly, tax havens were not targeted in the Bush administration's 2001 PATRIOT Act, while the Obama administration's Foreign Account Tax Compliance Act (FATCA) targeted foreign tax havens but not those based in American states like Delaware. Unsurprisingly, their compliance is among the lowest in the world (Findley et al. 2014). The Tax Justice Network (2018) consequently ranks the US second worst in the world for financial secrecy. Four British overseas dependencies or crown jurisdictions, including the Cayman Islands and Guernsey, also feature in the top 20, with Britain itself ranked twenty-third.

The same approach allows us to understand outcomes in radically different socio-political contexts. For example, Myanmar was until recently considered a pariah state, and a major site of money laundering associated with drug trafficking. Consequently, it was initially placed on FATF's 'blacklist' of Non-Cooperative Countries and Territories in 2001. However, Myanmar subsequently adopted FATF's Recommendations. It enacted largely compliant AML legislation, created an FIU, was de-blacklisted in 2006, joined the Asia/Pacific Group on Money Laundering (APG), and underwent peer evaluation in 2008 and 2017. However, the practical shape and operation of Myanmar's AML regime demonstrates the importance of local socio-political contestation. AML enforcement has been targeted heavily at groups considered disloyal to the incumbent regime, while supporters and politically exposed persons are spared scrutiny (Hameiri and Jones 2015a). The most recent evaluation found extensive non-compliance among non-financial institutions and poor-quality reporting of suspicious transactions by banks and noted that money laundering investigations typically only followed convictions for predicate offences, like drug trafficking or smuggling, in order to confiscate offenders' assets (Asia/Pacific Group 2018). Given that some of the main offenders are companies linked to the military, or ethnic militias aligned to the army or in precarious ceasefires with the central government, prosecutions are only likely to target official enemies (Meehan

2011). Thus, the politics of Myanmar's illicit economy and ethnic conflicts are central to explaining the limited extent and operation of state transformation in this issue area.

CONCLUSION

As this chapter shows, state transformation has become central to global governance, including the governance of development. Taking inspiration from Gramscian state theory, we have argued that 'state transformation' refers not simply to efforts to change the state's institutional architecture but, more fundamentally, to attempts to change how the state distributes power and resources, and the state's basic social purposes. This is evident when situating state transformation historically, in the context of the 1970s' crisis of Western capitalism and its aftermath. In a series of wrenching social conflicts, the nationally based programme of state-managed development that characterized the first few post-war decades was torn apart, and replaced by a regulatory state model designed to create supportive conditions for globalized competition and private capital accumulation. These transformations, which vary considerably across societies, reflecting specific socio-political struggles, have spread worldwide through efforts to attract foreign capital and insert sites in the Global South into global production networks, and through the interventions of IFIs and donor states promoting 'good governance'. In the process, the state's role in 'development' has been fundamentally reconfigured.

The fragmentation and disaggregation of state institutions associated with facilitating market-led development has also enabled and driven new forms of global governance through state transformation. As capitalist dynamics globalized, and as new associated pathologies emerged, this created demands for new forms of international cooperation to address transnational problems. With multilateral organizations increasingly deadlocked, however, proponents of global governance have looked to promote further state transformations, changing how state institutions operate in the pursuit of regional or global objectives. This has occurred via one or more of three processes: transnational networking of regulatory agencies; the extension of powerful state agencies' 'governance frontier' into other states; and the development of 'meta-governance' in international organizations. However, the substantive outcomes of GGST regimes are shaped by local power relations and struggles over the extent to which rules and regulations are embedded and applied domestically. Despite seeking to evade politics – especially democratic control and interest representation – GGST can never eradicate politics altogether but remains shaped by it in practice.

NOTE

1. FATF was established in 1989 by the Group of Seven. The original impetus came from US law enforcement agencies, which were keen to internationalize American money laundering regulations, developed in the 1980s as part of the Reagan administration's 'war on drugs' (Sharman 2011). It is based in Paris near the Organisation for Economic Co-operation and Development.

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