International political economy

R. Falkner

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Economics, Management,
Finance and the Social Sciences

This subject guide is for a 300 course offered as part of the University of London International Programmes in Economics, Management, Finance and the Social Sciences. This is equivalent to Level 6 within the Framework for Higher Education Qualifications in England, Wales and Northern Ireland (FHEQ).

For more information about the University of London International Programmes undergraduate study in Economics, Management, Finance and the Social Sciences, see: www.londoninternational.ac.uk
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Introduction

This subject is concerned with the interface between international economics and international politics. When researching international affairs, economists usually focus on the international economy, while international relations scholars tend to concentrate on matters political. In recent decades, however, a new focus has arisen in both these disciplines – and among their practitioners – on the many ways in which politics and economics are interlinked. Indeed, the study of international political economy is predicated on the assumption that in order to understand patterns of interaction and change at the global level, we need to look at both international politics and economics in an integrated manner.

This subject guide provides an introduction to international political economy. To be sure, the emphasis is on the politics of international economic relations. You can expect to deal with economic issues of trade, finance, production, environment and development, but not from the perspective of economic theory. Instead, you will engage with the International Relations concepts, ideas and literatures on the economic relations among states, and between states and non-state actors (such as firms, societal groups and international organisations). The focus will therefore be on the political problems that arise as a consequence of the increasing density of international economic relations. Knowledge of economics is an advantage but no requirement.

If taken as part of a BSc degree, courses which must be passed before this course may be attempted are 02 Introduction to economics or 11 Introduction to international relations.

Aims

The aim of this course is to promote understanding of:

• the interaction between politics and economics in international relations
• the sources of change in international political economy
• the challenges faced by states in an era of global economic integration and fragmentation.

Learning outcomes

At the end of this course, and having completed the Essential reading and activities, you should be able to:

• demonstrate an understanding of the processes of global integration and fragmentation in international politics and economics
• show what the sources are of continuity and change in international political economy
• demonstrate an appreciation of the history of thought in international political economy
• distinguish between, and critically evaluate, different theoretical approaches to international political economy
• explain the different roles of states, international organisations and non-state actors in the politics of international economic relations
• show an understanding of the economic challenges facing states in their foreign policy.

The structure of this guide

This subject guide consists of ten chapters and a concluding chapter providing a summary perspective on the issues covered. Chapter 1 introduces the concept of globalisation: the subsequent chapters are grouped in two blocs, with the first covering theoretical perspectives and the second the substantive issue areas in international political economy:

1. Globalisation in international political economy

Part 1: Theories of international political economy

2. Mercantilism and economic nationalism
3. Classical liberalism and neo-liberalism
4. Imperialism, dependency and neo-Marxism

Part 2: Structures, issues and actors

5. The international trade system
6. The global financial and monetary order
7. Economic development
8. Multinational corporations
9. Environmental protection
10. Regionalism in a global economy
11. Conclusion: The political economy of international relations

By way of introduction, Chapter 1 considers the economic factor in international relations. It introduces the concept of globalisation, that is the ongoing process of global economic, political and social integration.

Part 1 introduces the three classical approaches to the study of international economic relations: mercantilism, which emphasises the primacy of politics over economics and sees the state as playing a central role in guiding economic activity; liberalism, which advocates a reduced role of the state in the economy and the free operation of the market mechanism; and Marxism, which provides a radical alternative perspective based on a materialist understanding of history – where economic forces are seen as the cause of historical evolution – and a fundamental critique of global capitalism.

Part 2 looks at the main issues and policy areas in international political economy: international trade and the evolution of the multilateral trade order of the GATT and WTO; international finance, international monetary order and the IMF; developmental policy and the role of the World Bank and international aid; the internationalisation of production and the rise of the multinational corporation; the global ecological crisis and efforts to create a system of global environmental governance; and the trend towards regionalisation in international political economy. The concluding chapter sums up the key themes and issues covered in this subject guide.
How to use this guide

This guide is no more than an introduction to some of the key issues, theories and questions concerning the politics of international economic relations. It should not be seen as a substitute for careful study of the various books and articles listed under Essential reading and Further reading at the head of each chapter. It is through these works that your understanding of the subject will be broadened and deepened. The guide provides a starting-point for thought and an intellectual framework within which you can organise your studies. Its chief purpose is to stimulate further enquiry and promote precise and systematic thought. You are encouraged to read as broadly as possible.

For each topic, you should read at least three of the readings from the reading lists at the head of the chapters. Most of the items are journal articles and chapters in books. Some of them, however, are whole books which should be read, whenever possible, from start to finish. Internet links are provided for most chapters to guide you to some of the most important websites on each topic.

Activities are included in each chapter to help you to deepen your studies, guide further reading and generally encourage you to engage with the material in novel ways. Some of these activities point you to relevant reading material that expands specific sections of the guide. Others require independent study either of further reading or of internet sources.

Sample examination questions are set at the end of each chapter. You are advised to attempt at least one of these questions per chapter, and should aim to write a relevant, clear and cogent answer within 1500 words.

A list of aims and learning objectives and learning outcomes is provided for each chapter to enable you to assess your progress.

Reading advice

You will find a complete list of all readings and resources for this course at the end of this subject guide on p.103.

Under each chapter, your reading is split into three categories: Essential, Recommended and Further reading.

Essential reading

The following textbook is recommended as the core reading for the subject as a whole. It covers most of the ground in the study of international political economy, and candidates may wish to purchase a copy to have it to hand all the time:


You are advised to read this book as an introductory background text, ideally before embarking on a more focused reading of individual chapters covered in this subject guide.

In case you cannot get hold of the book by Ravenhill, the following textbook is an alternative suggestion. However, you do not need to study both texts; one is sufficient:

Detailed reading references in this subject guide refer to the editions of the set textbooks listed above. New editions of one or more of these textbooks may have been published by the time you study this course. You can use a more recent edition of any of the books; use the detailed chapter and section headings and the index to identify relevant readings. Also check the virtual learning environment (VLE) regularly for updated guidance on readings.

Recommended reading

Each chapter of this subject guide contains a set of recommended reading. These texts, usually journal articles or book chapters but also entire books, should be read in order to deepen your understanding of the issues covered in the subject guide and core textbook. It is not expected that you read all these texts, but many of them form part of the activities set out in each chapter and these are marked with an asterisk and are very strongly recommended. In general, the more widely you acquaint yourself with the literature, the better. Here are some further IPE textbooks that you may find useful:


For those interested in the history of international political economy, the following book provides an excellent overview of the sub-discipline’s historical evolution and the academic debates that have shaped this field of study:


Further reading

Please note that as long as you read the Essential reading you are then free to read around the subject area in any text, paper or online resource. You will need to support your learning by reading as widely as possible and by thinking about how these principles apply in the real world. To help you read extensively, you have free access to the VLE and University of London Online Library (see below).

Online study resources

In addition to the subject guide and the Essential reading, it is crucial that you take advantage of the study resources that are available online for this course, including the VLE and the Online Library.

You can access the VLE, the Online Library and your University of London email account via the Student Portal at: http://my.londoninternational.ac.uk
You should have received your login details for the Student Portal with your official offer, which was emailed to the address that you gave on your application form. You have probably already logged in to the Student Portal in order to register! As soon as you registered, you will automatically have been granted access to the VLE, Online Library and your fully functional University of London email account. If you forget your login details at any point, please email uolia.support@london.ac.uk quoting your student number.

The VLE

The VLE, which complements this subject guide, has been designed to enhance your learning experience, providing additional support and a sense of community. It forms an important part of your study experience with the University of London and you should access it regularly.

The VLE provides a range of resources for EMFSS courses:

- **Self-testing activities:** Doing these allows you to test your own understanding of subject material.
- **Electronic study materials:** The printed materials that you receive from the University of London are available to download, including updated reading lists and references.
- **Past examination papers and Examiners' commentaries:** These provide advice on how each examination question might best be answered.
- **A student discussion forum:** This is an open space for you to discuss interests and experiences, seek support from your peers, work collaboratively to solve problems and discuss subject material.
- **Videos:** There are recorded academic introductions to the subject, interviews and debates and, for some courses, audio-visual tutorials and conclusions.
- **Recorded lectures:** For some courses, where appropriate, the sessions from previous years’ Study Weekends have been recorded and made available.
- **Study skills:** Expert advice on preparing for examinations and developing your digital literacy skills.
- **Feedback forms.**

Some of these resources are available for certain courses only, but we are expanding our provision all the time and you should check the VLE regularly for updates.

Making use of the Online Library

The Online Library contains a huge array of journal articles and other resources to help you read widely and extensively.

To access the majority of resources via the Online Library you will either need to use your University of London Student Portal login details, or you will be required to register and use an Athens login: http://tinyurl.com/ollathens

The easiest way to locate relevant content and journal articles in the Online Library is to use the **Summon** search engine.

If you are having trouble finding an article listed in a reading list, try removing any punctuation from the title, such as single quotation marks, question marks and colons.

For further advice, please see the online help pages: www.external.shl.lon.ac.uk/summon/about.php
The examination

Important: the information and advice given here are based on the examination structure used at the time this guide was written. Please note that subject guides may be used for several years. Because of this we strongly advise you to always check both the current Regulations for relevant information about the examination, and the VLE where you should be advised of any forthcoming changes. You should also carefully check the rubric/instructions on the paper you actually sit and follow those instructions.

The examination for this subject is a formal three-hour written examination in which you will be required to answer four questions from a list of 12. A Sample examination paper is included at the end of this guide.

The Sample examination paper in this subject guide indicates the format and structure of the examination paper. You will be told about any changes to examination papers if they occur on the VLE. The Examiners’ Commentaries are usually made available online from mid-September.

The Examiners’ Commentaries contain valuable information about how to approach the examination and you are strongly advised to read them carefully.

Remember, it is important to check the VLE for:

- up-to-date information on examination and assessment arrangements for this course
- where available, past examination papers and Examiners’ Commentaries for the course which give advice on how each question might best be answered.

Glossary

APEC  Asia-Pacific Economic Cooperation
ASEAN  Association of South East Asian Nations
CACM  Central American Common Market
CARICOM  Caribbean Common Market
CSR  Corporate Social Responsibility
EEC  European Economic Community
EMS  European Monetary System
EMU  European Monetary Union
ECSC  European Coal and Steel Community
EU  European Union
FDI  Foreign Direct Investment
FSC  Forest Stewardship Council
FTAA  Free Trade Area of the Americas
GATT  General Agreement on Tariffs and Trade
GDP  Gross Domestic Product
IBRD  International Bank for Reconstruction and Development (World Bank)
ILO  International Labour Organization
IMF  International Monetary Fund
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>IPE</td>
<td>International Political Economy</td>
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<tr>
<td>IR</td>
<td>International Relations</td>
</tr>
<tr>
<td>ISI</td>
<td>Import Substitution Industrialisation</td>
</tr>
<tr>
<td>ITO</td>
<td>International Trade Organization</td>
</tr>
<tr>
<td>MAI</td>
<td>Multilateral Agreement on Investment</td>
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<tr>
<td>MEA</td>
<td>Multilateral Environmental Agreement</td>
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<tr>
<td>MFN</td>
<td>Most-Favoured Nation</td>
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<tr>
<td>MNC</td>
<td>Multinational Corporation</td>
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<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
</tr>
<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organisation</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<tr>
<td>NIC</td>
<td>Newly Industrialising Country</td>
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<td>NTB</td>
<td>Non-Tariff Trade Barrier</td>
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<tr>
<td>OAS</td>
<td>Organization of American States</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
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<tr>
<td>RTA</td>
<td>Regional Trade Agreement</td>
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<tr>
<td>SDT</td>
<td>Special and Differential Treatment</td>
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<tr>
<td>TRIMS</td>
<td>Trade-related Investment Measures Agreement</td>
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<tr>
<td>TRIPS</td>
<td>Trade-related Aspects of Intellectual Property Rights Agreement</td>
</tr>
<tr>
<td>US</td>
<td>United States</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNCED</td>
<td>United Nations Conference on Environment and Development</td>
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<tr>
<td>UNCHE</td>
<td>United Nations Conference on the Human Environment</td>
</tr>
<tr>
<td>UNEP</td>
<td>United Nations Environment Programme</td>
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<tr>
<td>WSSD</td>
<td>World Summit on Sustainable Development</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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Chapter 1: Globalisation in international political economy

Aims

The aim of this chapter is to introduce the economic factor in international relations and to consider the implications of globalisation in international political economy.

Learning outcomes

By the end of this chapter, and having completed the Essential readings and activities, you should be able to:

- explain how international political economy emerged as a discipline of International Relations
- discuss the emergence of international political economy as a sub-discipline of International Relations
- distinguish between different dimensions and types of globalisation
- compare the nineteenth-century experience of international economic integration with the late twentieth-century era of economic globalisation
- critically assess the competing visions of advocates and opponents of globalisation.

Essential reading


Recommended reading


*Strongly recommended.

Further reading


Introduction: the economic factor in international relations

In a world as interdependent as ours, the study of international politics can no longer ignore economic factors. Some of the most important issues on the international agenda, from international security to development and climate change, have an implicit or explicit economic dimension to them. The concept of security now encompasses questions not only of military defence but also those of securing the supply of natural resources and oil, food security and human security. Development in the poorest countries of Africa and Asia depends as much on domestic political reform as on creating a supportive international trade and investment environment. And combating environmental threats such as climate change calls not only for international political cooperation but also for changes in the socio-economic basis of the world's industrial systems.

The economic and political fate of nations can no longer be discussed in isolation: the place of every nation in the global web of economic exchanges and political relations must also be considered. Technological change and global commerce have brought societies closer together. Business is conducted on a global scale, with multinational companies maintaining production facilities in several countries and goods being traded across the globe. Capital markets respond within seconds to market signals in faraway continents. And international travel, communication
and the electronic media have allowed for an unprecedented level of social and cultural exchange. The world of politics has had to respond to these dramatic changes, as economic and social interconnectedness has created both opportunities and threats for governments and the societies they represent. The way in which political leaders deal with the challenges of a more globalised world will determine to a large extent whether societies benefit or lose out from increasing interdependence.

The discipline of International Relations (IR) has taken on the challenge of global economic integration by shifting the focus firmly to the political-economic nexus in international affairs. The study of international political economy is now a well-established part of the IR syllabus. But this was not always the case. In the early 1970s, when early forms of the process of globalisation were beginning to manifest themselves, few had actively researched the economic dimension of foreign policy and international politics. In a famous article published in 1970, Susan Strange lamented the fact that the two academic disciplines of international economics and international relations existed in a state of mutual neglect. Strange herself went on to remedy the situation and became one of the pioneers in the then largely ignored field of international political economy. Her seminal text States and markets, first published in 1988, is still considered a classic text in this sub-discipline.

Questions of global economic interdependence gained further importance after the end of the Cold War. The Soviet Union and its Eastern European empire had collapsed in part because the communist economic system could not keep up with the economic and technological advances achieved in the West. As soon as Soviet dominance was lifted, the countries of Eastern Europe quickly sought to reform their economies and integrate them into the world economy and the European Union. Around the world, developing countries and countries in transition embraced the model of the liberal market economy during the 1990s, thus giving further impetus to the ongoing process of global economic integration. The world, it seemed to many observers, had embarked on a large-scale process of change and integration that became known as ‘globalisation’.

Activity

Read Chapter 1 of Ravenhill (ed.) Global political economy on the study of international political economy.

The concept of globalisation

What exactly does ‘globalisation’ mean? It is one of the most commonly used terms in contemporary debates on global issues, yet few are able to provide a concise definition. In fact, many different definitions exist, pointing to different aspects of global economic, political and social integration. At the heart of the concept is the notion that the world is ‘shrinking’ in the sense that it is growing together more and more as a consequence of an increasingly dense network of interactions. The sociologist Anthony Giddens, for example, refers to ‘the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa’. Robert Cox, on the other hand, sees a more explicitly economic logic at work, pointing to ‘the internationalising of production, the new international division of labor, new migratory movements from the South to North [and] the new competitive environment that accelerates these processes...’.
What is clear from most definitions is that globalisation is a process, and does not denote an end point in the historical evolution of the world. What a fully globalised world would look like we may never know, but whether such an imagined state of affairs is indeed the inevitable outcome of a process of globalisation is less than certain. Globalisation should be seen as driving forward the process of deepening the links that exist between different societies and individuals. But this process need not be all-encompassing, and other trends pointing in other directions, such as a state of 'standstill' or even greater fragmentation, are occurring at the same time. When we discuss globalisation, it is therefore always important to bear in mind the possibility and actual reality that some societies or communities experience not greater integration into the global economy but fragmentation and isolation.

**Activity**

Compare the different definitions of globalisation given by Hirst and Thompson (2002), Scholte (2005) and Gilpin (2000).

Several trends and processes of change are commonly referred to as exemplars of globalisation. In recent decades, the global economy has seen a dramatic rise in levels of trade across boundaries. Global production by multinational corporations is now common in most industrial sectors. Global brands and products can be found in the most distant places of the world. And the integration of financial markets has helped to tie the fate of different national economies more closely together as markets respond to economic signals in faraway places within seconds. Moreover, the communications revolution has allowed people to enter into contact with others regardless of national boundaries. Telephony, the internet and the electronic media have created 24-hour news, a world around which information and ideas can flow much more freely than ever before.

A question remains about the fate of the states system and ‘the international’ in an era of globalisation. In its more extreme manifestations, the debate on globalisation has suggested that the states system may be an anachronism that is no longer well suited to a world of interconnected societies and economies, and that new forms of governance, below and above the nation state, will need to be found to match the emerging global networks of interaction. In this view, globalisation tends to undermine the nation state basis of political organisation and brings with it the emergence of a global political space in which individuals and peoples will create new forms of political authority and governance. The emergence of global civil society and the proliferation of international organisations can be seen as an early manifestation of this process of political globalisation.

Yet others remain sceptical as to the potential for such a profound transformation in the political sphere. Paul Hirst and Grahame Thompson point to the continuing role of states in providing international security and an international framework within which economic and social globalisation can take place. In their view, globalisation needs a supportive political environment that in the past has been provided by leading states, such as the United States. Rather than making the states system redundant, globalisation depends on a supportive framework provided by states. These scholars therefore prefer to speak of ‘internationalisation’ rather than globalisation, a concept that highlights the continued role of states in the integration of the world economy and society.
Activity

At this point, for a further discussion of the limits of economics globalisation in recent history, read Hirst and Thompson (2002).

How new is globalisation?

Globalisation is often thought to have emerged in the post-1945 era, and more specifically since the 1970s. The rise of multinational corporations, first in the United States and later in Europe and East Asia, the expansion of international trade and the emergence of globally integrated financial markets are all seen as interconnected trends that have begun to transform the global economy in the last 40 years. But in one form or another, these phenomena have existed for much longer, and the process of global economic integration can be traced back much further, not just to the late twentieth century but at least to the nineteenth century. Some scholars, such as Immanuel Wallerstein, argue that the current global capitalist system originated in the sixteenth century and has seen a continuous expansion ever since. This begs the question of just how new globalisation is.

Trading links were among the first significant forms of the growing interconnectedness of national economies in the late medieval and early modern era. From the Hanseatic League to Venetian trading fleets and the Dutch and British East India Companies, corporations from maritime countries were at the forefront of establishing international trading routes that connected first countries within Europe and later European economies with those of Asia, Africa and the Americas. Globally operating companies have thus been in existence for at least 500 years, often working in close cooperation with state authorities. But these companies were largely trading firms, and it was only in the mid-nineteenth century that manufacturing firms began to establish facilities in different countries. By the time of the First World War, the European economies were already tied together by international capital flows and transnationally integrated production. Some scholars such as Kenneth Waltz have argued that the high level interdependence of the pre-1914 Gold Standard era has never been achieved again. Others, such as Michael Bordo et al. (1999), point to the more limited nature of globalisation before the twentieth century.

But while debate on this question continues, it is fair to say that the late twentieth century witnessed a much wider and more comprehensive process of global economic integration, encompassing trade, foreign direct investment, short-term financial flows and technology exchange across borders. Not all indicators of global economic integration, such as trade openness, are at the same level as in the late nineteenth century, but this is due in part to the dramatic growth of the domestic economy in the twentieth century and particularly the rise of the services sector that is less likely to be internationalised. What matters more is the degree to which leading companies in the major industrialised economies are pursuing corporate strategies that are globally oriented. Innovation, product development, branding and marketing are now routinely carried out to serve global sales strategies.

Activity

Read Hirst and Thompson (2009), Chapter 2, and Bordo et al. (1999) on the history of the international economy.
It remains important, however, to reflect on the longer historical dimension of the current process of globalisation. The political problems and challenges that globalisation poses are not entirely new, and a rich history of international political economic thought exists that addresses the threats and opportunities that societies face from global economic integration (see Chapters 2–4).

Globalisation and its discontents

The globalisation of the world economy will most likely continue to tie societies and economies more closely together. Liberal economists and others see in this process of integration the hope for greater cooperation and prosperity for all nations involved. They welcome the opportunities that globalisation offers for extending markets, deepening the division of labour and raising productivity in production. Even if globalisation brings with it economic dislocation in the short run, it will contribute to alleviating poverty in the longer run. However, all observers do not share this optimistic view of globalisation. The late 1990s saw the emergence of a transnational movement of protest against globalisation, which gave expression to widespread fears about the ever-deeper integration of the world economy. For the anti-globalisation movement and other critical observers, globalisation holds the threat of economic marginalisation and global inequality, cultural homogenisation and the erosion of national sovereignty. Globalisation is seen as a process that benefits the rich rather than the poor, multinational corporations rather than local communities, and the West and the United States in particular rather than the developing world. Furthermore, the global financial crisis and economic recession that started in 2008 have highlighted the profound dangers of ever greater global integration of financial markets amidst weak regulatory oversight of the banking sector by governments.

The growing unease about the consequences of globalisation has manifested itself in a number of high-profile protests against international conferences and organisations. In 1999, protesters fought street battles with the police of Seattle (USA) outside the meeting of the Ministerial Conference of the World Trade Organization (WTO). Other high-profile meetings of the International Monetary Fund (IMF), the World Bank and G8 have since provoked similar public demonstrations. These protests are but the most visible manifestation of an anti-globalisation sentiment that has spread throughout the world. It is worth considering the main objections that are being raised against the process of globalisation:

- Distribution of wealth and inequality: One of the most contested questions in the debate on globalisation is whether it will lead to a more equal or unequal distribution of wealth worldwide. Proponents of greater economic integration argue that it will stimulate economic growth in all countries that are opening up their economies, and particularly in those that are starting out from a lower level of prosperity. The recent economic success of economic liberalisation in countries such as China and India, which has seen annual growth rates of between eight and 10 per cent for more than a decade, is seen as an example of what globalisation and economic reform can achieve. Critics of globalisation point to the serious economic dislocations that countries experience when they open their economies to international trade and capital flows. In their view, globalisation allows for a greater concentration of economic wealth and power in the hands of global corporations and the most industrialised economies of the
North. Cases of economic growth in developing countries in fact result in greater inequality within those countries, leaving many local communities exposed to the destructive forces of market competition. To some extent, the different perspectives of proponents and critics of globalisation reflect their different time horizons. The former point to the long-term growth prospects for all sections of society, while the latter focus on the short-term dislocations that economic change brings with it. But beyond this, real differences in opinion persist with regard to the question of what opportunities and threats the spread of global capitalism produces for workers, local communities and developing countries.

- **Loss of national autonomy:** A central argument of critics of globalisation is the eroding effect global integration has on national autonomy, that is the ability of states to set and pursue independent policy objectives. No country in the world is, of course, entirely autonomous. But globalisation is seen to enmesh countries in a growing web of transnational links that leaves them increasingly exposed to global market forces. Critics argue that the resulting power shift from states to global firms puts pressure on governments to provide an attractive investment climate for multinationals. Governments are locked into a ‘race to the bottom’ in which they compete with each other for foreign investment by deregulating the economy and dismantling welfare states. Proponents of globalisation counter this argument by highlighting the contrary empirical evidence. The role of the state in industrialised economies has changed little over the last 40 years. Despite sustained periods of deregulation in the 1980s and 1990s, state spending as a proportion of GDP has actually increased during that period. The recent financial crisis has forced governments to reduce public spending again in an effort to cut fiscal deficits but spending levels will likely remain high, at levels last seen shortly before the financial crisis. Furthermore, there has been little convergence between the different models of capitalism in the industrialised world, with central European and Scandinavian countries continuing to rely on a significantly larger role for the state in the economy than Anglo-Saxon countries.

- **Environmental costs:** Trade liberalisation and global market integration have been linked to environmental degradation around the world. Ecologists argue that international trade promotes an energy-intensive exchange of goods between distant communities that contributes to global warming through higher fossil fuel consumption, and erodes local and regional forms of sustainable production and exchange. In that trade fuels higher economic growth and the spread of unsustainable patterns of production, it acts as a major force behind the exploitation of natural resources. Advocates of free trade respond by pointing to the efficiency-raising effects of international trade that help reduce resource inputs in production. By extending competition and forcing inefficient companies out of business, trade can be a force for higher resource-efficiency in the economy. An important condition for reducing the environmental side-effects of trade liberalisation is, however, that all costs of moving goods around the world are fully integrated into their prices. An important step in that direction would be to raise energy prices in transport, be it by air, sea or land, to reflect the so-called ‘environmental externalities’ especially of fossil fuels (e.g. their contribution to global warming).
As this brief review of concerns over globalisation has shown, global economic integration poses serious dilemmas for states and societies around the world. Globalisation has changed, and will continue to change, the nature of international relations. But it is unlikely to lead to the demise of the nation state. States continue to play a key role in determining how much societies benefit from globalisation and how well they are protected from its negative consequences. The interaction between states and global markets thus remains a key focus in the study of international political economy.

Activity

In what ways can globalisation be said to be limiting the power of states?

List the benefits and costs that globalisation has produced for your own country.

A reminder of your learning outcomes

Having completed this chapter, and the essential readings and activities, you should be able to:

- explain how international political economy emerged as a discipline of International Relations
- discuss the emergence of international political economy as a sub-discipline of International Relations
- distinguish between different dimensions and types of globalisation
- compare the nineteenth-century experience of international economic integration with the late twentieth-century era of economic globalisation
- critically assess the competing visions of advocates and opponents of globalisation.

Sample examination questions

1. What, if anything, is new about globalisation?
2. Why is it argued that globalisation benefits the richer countries more than the poorer countries?
3. Does globalisation inevitably limit the autonomy of states?
Part I: Theories of international political economy
Chapter 2: Mercantilism and economic nationalism

Aims
The aim of this chapter is to introduce the mercantilist tradition in international political economy and to provide an overview of the evolution of mercantilist thinking on international economic relations over the last five centuries.

Learning outcomes
By the end of the chapter, and having completed the Essential readings and activities, you should be able to:

- discuss the relationship between power and wealth maximisation in mercantilist thought
- outline the policy instruments prescribed by classical and nineteenth-century mercantilists
- describe the permutations and variants of mercantilist and economic nationalist thought in the twentieth century
- explain the continuing appeal of mercantilist policy objectives in contemporary international economic relations
- discuss the contribution of hegemonic stability theory to the study of international political economy.

Essential reading

Recommended reading
*Viner, Jacob ‘Power vs. Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries’, World Politics 1 1948, pp.1–29.
* Strongly recommended.
Further reading


Introduction

Mercantilism is one of the enduring classical approaches to the study of international political economy. Originating in the sixteenth and seventeenth centuries, mercantilist ideas are still informing foreign economic policy around the world. By placing the nation state at the centre of analysis, mercantilism provides an explicitly political analysis of international economic relations, and thus a much needed corrective to purely economic theories of the global economy. But the mercantilist tradition contains many different sets of ideas and doctrines, and it is often difficult to subsume the wide range of mercantilist, and later nationalist, approaches to global economic issues under one rubric. The term ‘mercantilism’ only came into wider circulation after Adam Smith had used it to describe his intellectual opponents. For in the late eighteenth century Smith coined the term ‘mercantile system’ to characterise the common perspectives of a system of political economy that he sought to attack in his liberal theory of political economy. In discussing mercantilism and economic nationalism, therefore, we need to identify the core beliefs of this tradition as well as reflect on its many permutations.

Early forms of mercantilism

Mercantilism is the first theory of international political economy to emerge in the modern era. To be precise, it is not so much a systematic theory but a broad set of policy prescriptions and ideas, often written in the form of pamphlets and policy papers. The first distinctly mercantilist writings emerged in the sixteenth century, when the first elements of a modern capitalist world economy started to come into existence. By the seventeenth century, the core ideological tenets that were to unite most mercantilist writers were clearly established. They concerned the dominance of the national interest in economic policy, the central role of the state in directing economic activity and the importance of creating a favourable trade balance to promote growth and prosperity.
Chapter 2: Mercantilism and economic nationalism

Activity
At this point, for a further discussion of the origins of mercantilist thought, it would be useful to read Jacob Viner (1948).

Conventional interpretations of mercantilism see its essence in asserting the primacy of the nation state over the economy, and the subordination of wealth creation to power maximisation. As with most theoretical simplifications, this contains a kernel of truth but does not fully capture the variety of mercantilist thinking. As Jacob Viner (1948) argued in his seminal article on the subject, mercantilists in fact viewed power and wealth as interrelated and interdependent objectives of state policy, rather than as trade-offs. Following Viner and other historians of mercantilism, we can identify four essential elements of all mercantilist writings:

1. Mercantilists and political realists share the same analytical starting point, namely the state’s overriding need for security within an environment of international anarchy (i.e. where no central authority exists that could guarantee peace). Mercantilists deduce from this that in the pursuit of security, be it defensive or aggressive, the state seeks to maximise wealth as an essential means to power.

2. Just as wealth is a necessary condition for state power, so power is an essential means to wealth creation. Mercantilists believe that the power of the state serves the dual purpose of acquiring and securing wealth.

3. Both wealth and power are proper ends of national policy in their own rights. But while it is possible in the long run to pursue both ends as part of a mercantilist strategy, it may be necessary in the short run to sacrifice economic wealth in the interest of the state’s power and security. Because of international anarchy, and the constant threat to national security that results from it, the state’s survival cannot be compromised.

4. The international system and economy is best described as a zero-sum game, in which different economies compete with each other for a given size of economic wealth, which is seen to consist of precious metals. The accumulation mainly of gold and silver bullion, therefore, is the chief objective of all state intervention in the economy and international trade.

Different mercantilist authors such as Thomas Mun or Jean-Baptiste Colbert stressed different elements of mercantilist policy, but all recognised the intimate link between the need for national security, state building and economic wealth creation. The economic and political spheres were thus closely intertwined, with the state occupying a position at the centre of political-economic interaction. Not surprisingly, early mercantilism’s chief contribution to international political economy lies in recognising and legitimising the state’s role in regulating domestic economic activity and promoting external economic expansion, be it through peaceful or military means.

Activity
Which of the early mercantilist arguments about the nature of the international economy and the role of the state are still relevant today?
Nineteenth-century mercantilism: Hamilton and List

The rise of economic liberalism in the eighteenth and nineteenth centuries served a severe blow to the then intellectual predominance of mercantilism. Gradually but steadily, European states adopted liberal economic policies from the nineteenth century onwards. Britain took the lead in promoting free trade policies abroad after it had reduced its own trade tariffs in agriculture through the repeal of the Corn Laws in 1846. But liberal principles never fully replaced mercantilism. The two doctrines continued to compete for influence well into the twentieth century. In fact, the rise of the new economic powers of the nineteenth century, Germany and the United States, was closely linked with the re-emergence of neo-mercantilist doctrines. The main thrust of nineteenth-century mercantilism was to explain the central role of nation-building and state intervention for promoting economic growth in industrial ‘latecomers’. Because of the rise of nationalism in political thought and practice, this era of mercantilism is often referred to as the era of economic nationalism.

It is important to note the differences between liberalism and economic nationalism as well as the common themes that unite them. Economic nationalists such as Friedrich List and Alexander Hamilton were politically opposed to the universal claims of free trade liberals, but intellectually depended a great deal on the insights of economic liberal doctrine. Their main point of departure was that while liberal economic policy worked for mature industrialised countries such as Britain, countries at an earlier stage of economic development had to rely on different policies to catch up with Britain. For List, the end goal was the same as that prescribed by liberals, namely open competition and free trade in a global economy. But to reach the point where trade barriers could be eliminated, industrial latecomers first had to develop their own economy and industrial strength behind the protective barriers erected by the state. Nineteenth-century mercantilism thus introduced a dynamic element – a theory of development – into what was seen as a static liberal model of international economic relations.

Activity

At this point, for an account of Friedrich List’s mercantilist doctrine, read Levi-Faur (1997). To what extent did List share certain economic principles and beliefs with his liberal precursors?

As with the early mercantilists, there is considerable variation in the doctrines and policies that nineteenth-century economic nationalists put forward. What united them was the belief that the state played a central role in directing economic activity and promoting growth. List argued that the state had to nurture the productive powers of a nation. Specific policies advocated by nationalists included:

- **Protectionism**: unconditional free trade serves the interests primarily of the most advanced economies. Less developed nations lose out from open competition with superior industries. The state thus has to intervene in trade and erect barriers to protect domestic producers.
- **Promotion of ‘infant industries’**: protectionism’s main objective is to promote the growth of domestic industries. In their early stage of development, nascent industries are particularly vulnerable to competition from mature industries. To allow them to establish themselves and reach a state of international competitiveness, the state has to shield domestic industries from foreign competitors until
they have accumulated sufficient capital and technology to withstand international competition.

- Education: Friedrich List in particular stressed the importance of a national education strategy to develop fully the human capital of a society. The state’s role was to provide a basic infrastructure of education and promote learning in the interest of both individuals and society as a whole.

- Infrastructure: The state also plays a role in providing a basic infrastructure for industry and commerce, thus helping to overcome what economists would call ‘market failures’.

**Economic nationalism in the twentieth century**

The economic dislocations of the First World War thrust the world economy into a prolonged period of crisis and closure. Despite efforts in the 1920s to revive international cooperation and recreate the conditions for high economic interdependence that had existed before 1914, the economic depression of the 1930s drove the leading economies to seek refuge in mercantilist policies. A nationalist mentality informed the creation of colonial or semi-colonial trading blocs such as those by Britain, France, Germany and Japan. Aggressive mercantilism found its most extreme manifestation in Nazi Germany between 1933 and 1945. The racial ideology of the Nazi regime merged with an expansionist policy of territorial gain to form a particularly explosive form of economic nationalism that thrust the world into six years of war. Imperial Japan pursued its own strategy of economic gain through military expansion by creating a ‘Greater East-Asia Co-Prosperity Sphere’. The military defeat of Germany and Japan in 1945 put an end to these extreme versions of mercantilism and gave rise to the renewal of a global liberal order, this time under US leadership. But mercantilist thought continued to inform state policy in the post-1945 era, among the leading economies and especially on the margins of the new international order, in the developing world.

The ideas of economic nationalists such as Friedrich List found widespread appeal in many of the developing countries that emerged from colonial rule after the Second World War. At first sight, their situation seemed similar to that of the late industrialising countries of the nineteenth century: their domestic economy was insufficiently integrated and developed; human capital was not fully developed due to low educational standards; and their trade relations with the former colonial power were unequal in that they imported mainly manufactured goods in exchange for raw materials, thus forgoing the dynamic growth effects of technology-intensive manufacturing industries. The developmental problem in the South was widely seen as one of ‘catching up’, and neo-mercantilism presented itself as the developmental theory par excellence.

It was through the theory of dependency (see Chapter 4) that neo-mercantilist ideas were to exert their greatest influence on economic policy in developing countries. Latin American dependency theorists such as Raul Prebisch and Fernando Henrique Cardoso advocated a policy of import substitution to break the exploitative links between the economies of the capitalist centre and the underdeveloped economies in the South. In a sense, the strategy of import substitution industrialisation (ISI) is a modern version of the infant industry argument. It seeks to enable domestic industries to develop and gain strength behind the barriers of trade protection before they enter international competition on a stronger footing.
Activity
Read James Mayall (1990), Chapter 7, on economic nationalism in developing countries.

Contemporary mercantilism

Mercantilist ideas continue to inform foreign economic policy around the world. In that they posit a close relationship between the political and economic spheres, with the state at the centre of this relationship, they continue to provide an essential vantage point from which to view international political economy. In practical terms, mercantilism inspires current protectionist policies and state-centric approaches to economic development and growth around the world. Although the doctrine of free trade has gained widespread support among economists and informs the contemporary international trade system, governments continue to pursue trade protection to insulate their economies and societies from the harsh climate of international competition.

Strategic trade theory

Whereas some developing countries continue to seek protection for their infant industries, governments in the most advanced economies use some form of protectionism as part of their wider industrial policy. Economists have sought to explain the persistence of state intervention in high-technology sectors, such as computer and automobile production, with the help of new developments in trade theory, particularly strategic trade theory. The central argument of this theory is that governments and industries can use trade protection and subsidies in a strategic way to expand their global market share and pre-empt entry into the market by competitor firms. In oligopolistic markets with few large companies and high entry costs, state intervention can be a useful, indeed critical, tool to capture market share and create the foundations for global market dominance. Countries that fail to help their own industries will lose out, and those that do intervene strategically will be able to produce a net benefit in welfare. Strategic trade theory has attracted considerable attention in economic circles for it seems to refute what the vast majority of economists have held to be a near-universal truth, namely that free trade benefits all nations. But even proponents of the strategic trade proposition admit that it is valid more in theory than in reality. More recent empirical studies suggest that it is extremely difficult for governments to know when and how to intervene strategically, and that industries will want to exploit the strategic trade argument to receive generous subsidies or trade protection beyond the level that would maximise welfare.

Activity
Read Douglas Irwin (1996), Chapter 14, for a discussion of strategic trade theory.

Hegemonic stability

A different variant of mercantilist thinking in contemporary international political economy that has gained widespread attention is the theory of hegemonic stability. Proposed initially by Charles Kindleberger to explain the collapse of international order in the troubled interwar years, when the United States was unwilling and the United Kingdom no longer able to provide hegemonic leadership, the theory has been widened to serve as a more general theory of international cooperation. At its heart is the
mercantilist insight that the economy is embedded in a supportive political system and that states provide order for the global economy. Because of the competitive and potentially conflictual nature of the international system, it takes a dominant power with preponderant power resources – a hegemon – to set the norms and rules of the international order and ensure at least some level of compliance by other states. Hegemons do this either by inducing cooperative behaviour through giving financial aid or economic concessions to other states, or if needed use their economic and military strength to coerce other nations into compliance.

Hegemonic stability theory most closely matches the experience of the post-Second World War era, when the United States provided international leadership in creating a liberal economic order. US economic aid through the Marshall Plan was instrumental in helping with the economic recovery process in Europe, and US plans for a new international monetary and trade order found their expression in the designs of the Bretton Woods institutions (see Chapter 5) and the GATT (see Chapter 6). But critics of hegemonic theory point out that the theory fails to explain the continued existence of international order and stability during the 1960s and 1970s, when US hegemony was widely perceived to be in decline. Indeed, post-war experience suggests that hegemons play a more important role in creating rather than maintaining international order.

Hegemonic stability theory represents a significant development of mercantilist thought in the twentieth century. It also signals a departure from traditional mercantilist themes in that it considers a system of free trade as integral to hegemonic order. Whereas classical mercantilists argued for the need to manage trade so as to achieve a favourable trade balance, proponents of hegemonic stability theory suggest that free trade is desirable but can only be secured if it is backed up by a hegemonic state with preponderant power.

**Activity**

To what extent did Britain play the role of a ‘hegemonic leader’ in the nineteenth century?

How important is hegemony to creating and maintaining international economic cooperation?


**A reminder of your learning outcomes**

Having completed this chapter, and the Essential readings and activities, you should be able to:

- discuss the relationship between power and wealth maximisation in mercantilist thought
- outline the policy instruments prescribed by classical and nineteenth-century mercantilists
- describe the permutations and variants of mercantilist and economic nationalist thought in the twentieth century
- explain the continuing appeal of mercantilist policy objectives in contemporary international economic relations
- discuss the contribution of hegemonic stability theory to the study of international political economy.
Sample examination questions

1. ‘Most statesmen accept the doctrine of free trade in theory but pursue protectionism in practice.’ Discuss.

2. Why do mercantilists believe that international trade is a source of conflict rather than cooperation?

3. ‘Laissez-faire is the doctrine of the economic top-dog.’ Discuss.
Chapter 3: Classical liberalism and neo-liberalism

Aims

The aim of this chapter is to introduce the liberal tradition in international political economy and to consider its evolution over the last three centuries.

Learning outcomes

By the end of the chapter, and having completed the Essential readings and activities, you should be able to:

- describe the core tenets of classical liberalism and liberal political economy
- critically evaluate the ‘peace-through-trade’ doctrine as developed in the nineteenth century
- discuss the role played by the concepts of interdependence and international regimes in twentieth-century liberal thought
- outline the contribution of liberal thought to the post-Second World War order.

Essential reading


Recommended reading


* Strongly recommended

Further reading


Introduction

Liberalism has risen to ideological pre-eminence in the Western world since the nineteenth century. Supported by globalisation and Western dominance in the international political economy, it has become the new global ‘orthodoxy’ in economic policy-making. Liberal ideas and principles were central to the international order created by the United States after the Second World War. While so-called ‘neo-liberal’ ideas have dominated the economic policies advocated by international economic institutions such as the World Bank and the IMF, most notably in the 1980s and 1990s, recent economic crises such as the 2008 financial crisis have cast a shadow over the future of global liberalism in economic policy. Moreover, it is important to note that popular representations of (neo-) liberalism as ‘pro-market’ and ‘anti-state’ fail to capture the rich legacy of liberal thinking in international political economy. Liberalism has gone through several stages of development over the past three centuries and contemporary liberalism is more diverse than many critics of neo-liberal globalisation acknowledge. It is important, therefore, to trace the evolution of liberal thinking from its origins in the eighteenth century and to understand contemporary variants of liberalism.

Classical liberalism

The work of Adam Smith, the eighteenth-century Scottish philosopher and political economist, is still regarded as the classical statement of liberal political economy. In his seminal text An inquiry into the nature and causes of the wealth of nations (1776), Smith lays down the liberal principles that should guide economic policy-making. Much of the Wealth of nations is devoted to attacking mercantilist doctrines. Although Smith himself shared some important beliefs with mercantilists about the international political economy – most notably the conflictual nature of the international system and the need to sacrifice economic gain for national defence – he nevertheless delivered a stinging attack on most of the key economic doctrines espoused by mercantilism. At the heart of Smith’s liberal critique was a rejection of state intervention in the economy as prescribed by mercantilism. Liberal political economy advocates a market economy that promotes individual enterprise. The state’s role is to support, not hinder, the free interplay of market forces.

Smith’s liberal principles were further developed over the next two centuries and became part of the orthodoxy of modern economics. To be sure, liberalism is a broad church and liberal theorists from Adam Smith
to Richard Cobden, John Maynard Keynes and Friedrich Hayek differ on many aspects of economic policy, but they all share some key principles that characterise liberal thought from the eighteenth to the twenty-first century. Among the most important are:

- **Individualism and individual liberty:** In the words of John Stuart Mill, ‘the free development of individuality’ is at the heart of liberal politics. The pursuit of individual self-interest is both an expression of liberty and the engine of social and economic progress.

- **Market mechanism:** For liberals, the market is the natural, and most effective, mechanism for coordinating individuals’ pursuit of self-interest. It guarantees the optimal allocation of resources in a world of scarcity. The development of the market and the division of labour is the prime source of economic growth.

- **Limited government:** Liberals are generally sceptical about the power of government, believing it to have a detrimental effect on individual liberty and the functioning of the market. They seek to limit the right of government to interfere in society and the economy, but differ as to the precise role that government plays in promoting individual and societal well-being.

- **Progress in history:** Liberals share a belief in the progressive nature of history. Adherence to liberal principles will allow societies to develop their economic and political potential and realise prosperity and peace over time.

With regard to international economic relations, classical liberals reject mercantilism’s portrayal of the international economy as a zero-sum game in which one nation’s gain is another nation’s loss. Instead, all nations can benefit from an expanding global market through promoting free trade and the international division of labour. Adam Smith criticised Britain’s trade-restricting practices of his time and argued that the mercantilist obsession with relative gains had held back the prosperity of the nation. He also rejected colonialism for its negative effects on international trade as much as for moral reasons. But while liberals such as Smith supported free trade in principle, they were all too aware that in a world of international anarchy, no nation could ignore fundamental security concerns. For that reason, Smith moderated his advocacy of free trade with a good dose of political realism, arguing that ‘defence … is of much more importance than opulence’. On this issue of international anarchy and security, Smith’s liberal followers during the nineteenth century were to depart significantly from the classical liberal roots.

**Activity**

For a further discussion of Adam Smith’s liberal theory of international relations read Andrew Wyatt-Walter (1996).

**Free trade liberalism**

It took Britain until the mid-nineteenth century to put Smith’s advice into practice and adopt a free trade policy. Based on its predominant position in the international economy, Britain used its influence to promote a liberal international order, but continued to maintain a colonial empire. By the nineteenth century, thinkers such as David Ricardo and Richard Cobden, among others, had further developed the key insights of liberal political economy. They strengthened the theoretical case for free trade and provided a more progressive, and optimistic, outlook on international
order and peace. ‘Peace-through-trade’, the belief that free trade would guarantee peaceful relations between states, became the rallying cry of nineteenth-century liberals.

In the field of trade theory, David Ricardo laid the foundations for the theory of comparative advantage, which still provides a powerful rationale for free trade policies. According to Ricardo, all nations can benefit from international trade, including those that don't have an absolute advantage in any economic sector or industry (i.e. that are not more efficient than other nations at producing any good). As long as they are willing to specialise in the production of those goods where they have a comparative, or relative, advantage, they can improve their welfare. Thus, countries with an abundant labour force but lack of capital should concentrate on producing labour-intensive goods (e.g. in agriculture), while capital-intensive but labour-poor countries would do better by specialising in manufactured goods, even though they may be more productive in both manufacturing and agriculture.

Activity

What distinguishes Ricardo’s comparative advantage theory of trade from Smith’s absolute advantage theory of trade?

Free trade advocates also argued that the insights of liberal theory could help build a lasting international order. Richard Cobden, John Bright and others who campaigned for the abolition of Britain's agricultural trade protection believed that free trade would promote not only wealth but also peace. In their view, the free exchange of goods would promote wealth creation, which in turn would reduce the desire in nations to build empires and use military force for economic gain. Free trade would bring out the common interest of all peoples in peace and cooperation, and would take away the reason for pursuing economic nationalism. Richard Cobden gave this ‘peace-through-trade’ thesis powerful expression in 1846, in a speech delivered in Manchester:

I see in the Free Trade principle that which shall act on the moral world as the principle of gravitation in the universe, drawing men together, thrusting aside the antagonism of race, and creed, and language, and uniting us in the bonds of eternal peace.

Critics of this approach raised two fundamental objections:

• As E.H. Carr and others were to argue in the twentieth century, free trade benefits mainly the powerful and economically advanced nations. Britain in the nineteenth century may have believed that free trade reflected the interests of all nations, but this merely disguised real differences in economic interest and power. The free trade doctrine thus becomes an ideology of the rich and powerful.

• Despite a high degree of economic interdependence and integration in the early twentieth century, the First World War destroyed all hopes that free trade alone could secure peace. The resurgence of mercantilism and military expansionism after the war posed a serious dilemma for the progressive interpretation of history by economic liberals. As the rise of fascism and communism and the outbreak of the Second World War seemed to suggest, deep-rooted nationalist sentiments stood in the way of a peaceful evolution of international society.
Activity

The economically integrated countries of Western Europe have not fought a war against each other since the Second World War. Does this confirm the ‘peace-through-trade’ argument, or do factors other than trade interdependence explain the relatively long period of peace in Europe?

Twentieth-century liberal theory

After the Second World War, the United States and its allies began rebuilding the foundations for an open and liberal international economy. A new institutional order, comprising the United Nations, the World Bank, the International Monetary Fund and the GATT trading system, provided a stable and reliable set of rules and norms for international economic relations. The post-1945 era saw a remarkable expansion of international trade and a sustained period of economic growth in the major economies of the world. Against the background of deepening economic integration and peaceful relations between the industrialised countries, liberal ideas once again gained credence. However, liberals had learned the lessons of the turbulent years of the first half of the twentieth century. They no longer believed in a direct link between trade and peace and recognised that international stability and order remained precarious.

Two major strands of thought are central to twentieth-century liberal international relations theory:

- the concept of interdependence
- theories of international institutions and regimes.

The concept of interdependence

The rapidly expanding international economy of the post-1945 era brought with it an unprecedented increase in transboundary interactions, involving states and non-state actors alike. Trade and capital flowed more freely, and global corporations came to dominate the international economy, thereby linking distant economies more closely together. A plethora of non-governmental organisations (NGOs), such as human rights, environmental and consumer groups, began to organise themselves transnationally, forming ever-closer ties between societies. And at the highest level, new international organisations emerged to deal with the various aspects of economic, social and political cooperation.

Liberal theorists, such as Robert Keohane and Joseph Nye, saw in these trends the makings of a new international order that is characterised by a high level of interdependence. Under conditions of interdependence, a complex web of interactions binds states together with the result that national autonomy is limited. Liberals consider this high degree of interconnectedness as having a mitigating effect on international anarchy and conflict. Given the close links that exist between nations, it would be more costly to use military force in order to resolve conflicts. Interdependence puts a high price on war and makes military expansion less attractive. To be sure, liberals no longer expected peace to follow automatically from an open international economy, as did nineteenth-century free trade advocates. Keohane and Nye were keen to emphasise that the international system is still characterised by substantial differences in power, and that interdependence affects countries in an asymmetrical fashion: some handle it better than others, and are thus likely to gain more from greater international integration. But the overriding message
remains: interdependence forces states to recognise the need for stability and peaceful relations, and is likely to entice them into a more institutionalised, and thus more lasting, form of cooperation.

Activity

The rise of international institutions and regimes

The institutionalisation of cooperation, which liberals attribute to interdependence, has given rise to a second major strand of neo-liberal thinking. The post-war international system has seen a dramatic surge in international treaties, organisations and regimes. An increasingly dense network of formal and informal agreements and a strengthening body of international law now covers international commerce and public policy areas such as health, the environment and human rights, leading to what many see as an emerging system of global governance. Liberal theorists interpret this trend as the sign of a gradual but significant transformation of the international system that would help ‘tame’ international anarchy.

Stephen Krasner defines international regimes as ‘sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors’ expectations converge in a given area of international relations’ (Krasner 1983:2). It is clear from this definition that the concept of regime encompasses more than just formal international organisations (e.g. World Bank, IMF). Most international organisations are part of a regime, and represent the norms and rules of that regime, but not all regimes need to be supported by international organisations in order for them to be relevant. To understand the functioning of the international political economy, therefore, we need to focus on the rules rather than the organisations.

One of the important regime norms that came to be institutionalised after the Second World War, and that still provides guidance in international economic policy-making, is multilateralism. It can be found in several international regimes, most notably in the GATT/WTO trading order, which seeks to promote trade liberalisation on a multilateral basis (see Chapter 5). Multilateralism recognises the right of all nations to participate in international negotiations and norm setting, irrespective of their status or power. The WTO, for example, upholds the ‘one nation, one vote’ principle in its decision-making, and no trade deal is finalised until all nations have agreed to it. Multilateralism thus seeks to control the power of the dominant players in the international political economy.

As the example of multilateralism shows, however, the existence of an international norm does not in itself guarantee that it will be obeyed by all states. In the current post-Cold War era, multilateralism has been challenged by the only remaining superpower, the United States, as it seeks to redefine its national interest and foreign policy objectives in a more unilateralist fashion. International regimes exist within the context of international anarchy, and liberal institutionalists recognise that no international authority exists that could enforce the regimes’ norms and rules. But the continuous expansion of, and relatively high level of compliance with, international regimes suggests that, as liberals argue, states find it in their interests to be bound by them. Regimes facilitate the efficient operation of the world economy, help create greater certainty about the behaviour of other states and deal with market failure, such
as the provision of global public goods. In this sense, the creation of international institutions has not done away with international strife and conflict, but it has brought the world closer to a more orderly and stable pattern of international relations.

**Activity**

Contrast contemporary and nineteenth-century perspectives on the possibility of creating lasting peace in international relations.

Have shifts in recent US foreign economic policy towards unilateralism served to undermine the principle of multilateralism?

Does the rise of the emerging economies of China, India and Brazil pose a threat or opportunity for the liberal international economic order?

**A reminder of your learning outcomes**

Having completed this chapter, and the Essential readings and activities, you should be able to:

- describe the core tenets of classical liberalism and liberal political economy
- critically evaluate the ‘peace-through-trade’ doctrine as developed in the nineteenth century
- discuss the role played by the concepts of interdependence and international regimes in twentieth-century liberal thought
- outline the contribution of liberal thought to the post-Second World War order.

**Sample examination questions**

1. Evaluate the proposition that global economic integration promotes peace and international stability.

2. What distinguishes twentieth-century liberalism from classical liberalism?

3. Critically assess the liberal view that international trade is a ‘positive-sum’ game in which all nations can benefit.
Chapter 4: Imperialism, dependency and neo-Marxism

Aims

The aim of this chapter is to introduce the Marxist tradition in international political economy and to consider the contribution made by neo-Marxist and other theorists of imperialism and dependency to the study of international economic relations.

Learning outcomes

By the end of the chapter, and having completed the Essential readings and activities, you should be able to:

- outline the key tenets of Marxist political economy
- explain the contribution made by Lenin to Marxist explanations of imperialism
- contrast Marxist and dependency explanations of global inequality and underdevelopment
- outline the key tenets of neo-Marxist political economy.

Essential reading


Recommended reading


* strongly recommended

Further reading


Introduction

The study of imperialism and dependency, although building on a wide range of theories and approaches, is most closely associated with Marxist political economy. Marxism is the third major theory of international political economy to emerge in the modern era. It aims at a radical departure from conventional political economy, in that it seeks to unearth the eternal forces of history that produce change and that will bring about the eventual downfall of the contemporary international order, namely global capitalism. Insofar as Marxism provides a rationale for the revolutionary overthrow of the existing system, it differs fundamentally from mercantilism and liberalism, which both seek to help to understand and manage the existing system. Marxism's emphasis on emancipation and the transformative forces in history continues to inform contemporary critical theory, a variant of neo-Marxism that is the main proponent of a radical approach to international political economy.

Karl Marx and Marxism

In order better to understand contemporary theories of imperialism and dependency, it is worth revisiting the thought of Karl Marx (1818–83), the founder of the Marxist tradition of political economy. Bear in mind the following two caveats:

- Marx's work is extremely wide-ranging and covers philosophical, historical, political and economic themes. It is therefore impossible to do justice to his writings, or indeed to those of his collaborators, especially Friedrich Engels, and followers in the nineteenth and twentieth centuries.

- Marx was primarily concerned with the analysis of capitalism in one country, Britain, and not with international economic relations between capitalist states, or between imperial powers and colonial territories.

Nevertheless, it is possible to identify the key philosophical and political tenets that characterise Marx's thinking and connect it with much of contemporary neo-Marxist writing. Among the most important elements of Marx thought are:

1. Materialist philosophy: Economic forces and interests are the main driving force in history. Political systems, institutions and cultures
merely reflect underlying material realities. To understand history and the potential for change, therefore, the theorist has to identify the underlying economic forces of a given political order. Marxists tend to explain international events in terms of economic factors.

2. Class conflict: For Marx, history evolves as a series of struggles between opposing forces, or classes, that are rooted in the economic system of the time. In the capitalist era, capitalists and the proletariat are locked into conflict over control of the productive forces of the economy. It is out of this conflict that the sources of change, and indeed revolutionary change, will spring. Marx predicted that class conflict in the modern era would bring about a socialist revolution, which in turn would lead to a communist economy and society.

3. Vanishing role of the state: It follows from the above that the state does not play an autonomous role in politics, but is merely the representative of the dominant class in society. Under capitalism, therefore, the ‘executive of the modern state’ is merely, to use Marx’s and Engels’ words from The Communist Manifesto, ‘a committee for managing the common affairs of the whole bourgeoisie’. This view has led Marx and some of his followers to argue that international relations is of secondary importance, and will eventually disappear as the state vanishes in the socialist revolution.

Activity

At this point, read Marx’s and Engels’ Communist Manifesto of 1848, which is available on the internet at www.anu.edu.au/polsci/marx/classics/manifesto.html.

Although comments on international diplomacy are interspersed in his wide-ranging journalistic writings, Marx did not concern himself much with the study of international economic relations. His analysis of capitalism led him to believe that all nations needed to develop their full economic potential under the leadership of the bourgeois class before a socialist revolution could take place. For that reason, Marx welcomed colonial expansion as a way of spreading capitalism and of overcoming what he saw as backward economic systems in countries such as India. Later Marxist theorists were to take issue with this broadly optimistic view of global capitalism and colonialism and argued that it is capitalism itself that is the root cause of global inequality and poverty in the developing world.

Activity

Contrast the Marxist perspective on international economic relations with those of liberalism and mercantilism. What were the major points of departure for Marx in defining his approach to political economy?

Lenin and the theory of imperialism

At the beginning of the twentieth century, the capitalist countries of Europe were locked into an intense struggle to create or expand their colonial empires. The so-called ‘scramble for Africa’ had led to the occupation of nearly the entire African continent by a handful of European countries. Marx had little to say about imperialism as a feature of the international system, and it fell to his followers in the twentieth century to add a theory of imperialism to Marxist thought. Among the many writers on this subject, including Rudolf Hilferding and Rosa Luxemburg, Lenin rose to particular fame with his Imperialism, the highest stage of capitalism,
a relatively brief text written in 1916. In it, Lenin sought to explain the outbreak of war between the major capitalist countries of Europe as a consequence of imperialist competition. Working within the materialist tradition, Lenin located the roots of this trend in the capitalist system itself.

Lenin’s explanation of imperialism is not an original piece of work, but synthesises the views of a number of theorists, including the liberal theory of imperialism developed by John Hobson. It is based on a number of assumptions that build up to a powerful indictment of capitalism as the source of territorial expansion, international conflict and war. While many scholars of imperialism have questioned the historical accuracy of Lenin’s analysis, its impact on neo-Marxist theory in the twentieth century is beyond doubt. The key elements are:

- In the imperialist era, capitalism has entered its highest and final stage. This stage is characterised by the concentration of capital and productive forces, leading to the creation of large monopolies that dominate the capitalist economy. In other words, imperialism is the monopoly stage of capitalism.

- The concentration process has also led to the merging of bank capital with industrial capital, to form a new financial oligarchy called finance capital. The representatives of finance capital become the voice of a united capitalist interest and possess unrivalled economic and political influence.

- In this stage of capitalist development, leading economies will no longer export goods but will increasingly export capital. Because of a falling rate of profit in developed home markets, capital needs to find new forms of employment abroad.

- The consequence of this expansionist drive is the creation of what Lenin called the ‘international monopolist capitalist combines’, in effect corporate interests combined with governments that seek to expand colonial empires and capture new international markets.

- Because of the Earth’s natural limits, which the scramble for colonies is bound to reach, the logic of capitalist expansion will eventually drive the leading capitalist countries into conflict and war. In short, war is the inevitable outcome of the imperialist stage of capitalism. And war will lead to the final collapse of capitalism in a worldwide revolution.

Lenin’s prediction that imperialist competition and war would unleash the forces of revolution and would seal the fate of the capitalist system came to nothing. After the successful Russian Revolution in 1917 and the end of the First World War in 1918, revolutionary movements in Europe failed to overthrow the established order in the capitalist heartland, while fascist governments would soon gain power in Germany and Italy. For Marxists it seemed as if the working class had abandoned its revolutionary mission and become complicit in the maintenance of capitalist order. Internationally, the leading colonial powers were able to bury their differences and coexist peacefully after 1918, having broken up the Austro-Hungarian and Ottoman empires as part of the post-war settlement. In fact, colonial empires started to crumble after the Second World War, and by the late 1960s the majority of colonial territories had gained political independence. For neo-Marxists, this course of events posed a serious challenge that gave rise to new approaches to the study of imperialism. Not only had the world revolution
failed to materialise, but also the capitalist powers had managed to stabilise their political-economic system and embarked on a wholesale process of decolonisation.

**Activity**

How accurate was Lenin’s analysis of the historical phase of imperialism in the run-up to the First World War?

Why did Lenin’s prediction of an all-out war between capitalist countries that would spark the end of the capitalist order not come true?

### Dependency theory and underdevelopment

Dependency theory was the most prominent among new developments in the theory of imperialism. Dependency theory is a broad church, and combines theorists informed by Marxist and non-Marxist thought. It originated in Latin America in the 1940s and 1950s, was adapted and further developed by African authors and assumed a central role in the resurgence of neo-Marxist thought around the world in the 1960s. Among the key authors were Raul Prebisch, Andre Gunder Frank, Fernando Henrique Cardoso and Samir Amin.

The experience of Latin America was central to the evolution of dependency theory. Most Latin American countries managed to throw off the yoke of colonial rule by Spain and Portugal in the first quarter of the nineteenth century. But despite over a century of political independence, they found themselves in the middle of the twentieth century in a state of economic dependence and underdevelopment. The explanation for this, dependency theorists argued, lay in the international economic system and the unequal patterns of exchange that characterise it.

For dependency theorists, underdevelopment in the South was no historical accident, but the direct result of capitalist efforts at ‘development’. In Frank’s famous words, capitalism was responsible for the ‘development of under-development’. It was integration into the global economy that left developing countries exposed to the exploitative nature of global capitalism. One of the key mechanisms through which this form of exploitation took place was unequal trade. Most developing countries were suffering from falling terms of trade, which is to say that the prices of the South’s exports, mainly commodities and natural resources, were falling relative to the prices of imports from the North, mainly manufactured goods. By concentrating on cash crops such as sugar and coffee, a pattern continued from colonial times, developing countries were locking themselves into a mode of production that systematically favoured the developed economies. Another explanation of Southern dependency focused on the role of transnational corporations. Companies such as the US giant United Fruit played a dominant role in many Latin American countries, both economically and through involvement in domestic politics, raising concerns about their overbearing power.

In some ways, dependency theory can be seen as an extension of Marxist thought:

- By focusing on the economic forces of global capitalism, as represented by international trade relations and the operations of transnational corporations, dependency theory provides a materialist interpretation of the international system.
- By viewing international economic relations in dichotomous terms as a conflict between the economies of the centre (North) and those of the
periphery (South), dependency theorists recreate the theory of class conflict at a global level.

But it is important also to highlight the profound differences between dependency theorists and Marxists:

- Whereas Marx viewed colonialism and integration into global capitalism as a positive force, raising poorer societies to the level of development of the most advanced nations, dependency theorists argue that it is global capitalism that is holding back developmental efforts in the South. Marx’s dynamic and progressive notion of history is replaced with a more static picture in dependency theory.

- Whereas Marx viewed capitalism as a mode of production, focusing on the ownership of the means of production, dependency theorists define global capitalism by the mode of exchange, which from the perspective of the periphery appears as unequal exchange.

Dependency thinking was influential in many developing countries during the 1960s and 1970s. The widely applied strategy of import substitution (see Chapters 2 and 7) aimed at improving the terms of trade and reducing dependence on foreign companies. At the United Nations, the campaign for a New International Economic Order was also informed by dependency thinking. The biggest challenge for dependency theory came with the economic success of the East Asian economies that was based on an export-led growth strategy. Rather than being held back by global capitalism, countries like Hong Kong, Taiwan and South Korea embraced the world market and were able to achieve industrialised-country levels of economic wealth. To be sure, the East Asian ‘Tiger economies’ mixed export-led growth with a good dose of protectionism and state intervention in the domestic economy. But their experience of economic development nevertheless seemed to confound the quasi-fatalist predictions of dependency theorists that had ruled out any possibility of successful development within the global capitalist order.

**Activity**

Why did developing countries’ efforts to reform the international economic order fail?

What does the experience of the 1997 Asian financial crisis tell us about the contemporary relevance of dependency theory?

**Contemporary neo-Marxist theory**

Contemporary theories of imperialism and global capitalism have responded to these theoretical shortcomings and empirical puzzles in several ways. Among the most important proponents of a neo-Marxist theory of international political economy are Immanuel Wallerstein and Robert Cox. Wallerstein’s extensive historical survey of the evolution of global capitalism, published in a three-volume book series entitled *The modern world-system*, sparked a renewed interest in structuralist explanations. Synthesising a range of intellectual traditions including Marxism, dependency theory and French historical thinking à la Braudel, Wallerstein explains global capitalism as a coherent, historically grown, system. It is ruled by a single logic, based on capitalism, which encompasses both the realms of international economics and international politics. Wallerstein departs from Marx in several important areas. One notable departure concerns the role of states, which Marx and many of his followers had downplayed. Wallerstein argues that states indeed play a central role in maintaining the global capitalist order. Capitalism and the
state system, he claims, are the two sides ‘of a single coin. They are both part of a seamless whole. Neither is imaginable without the other.’

A second departure concerns the potential for change. Whereas dependency theorists had argued that developing countries were caught in a state of dependency within the global capitalist system, Wallerstein recognises the potential for movement between the economies of the centre and the periphery. By introducing the category of semi-periphery, he seeks to account for countries in the South that have either managed to advance economically to leave the periphery (e.g. Singapore, South Korea) or those countries in the North that have fallen behind other centre economies (e.g. Portugal in the twentieth century). The rise of the East Asian ‘Tiger economies’ thus points to the emergence of a new semi-periphery, which introduces a zone of political stability between the centre and the periphery, but ultimately fails to change the underlying reality of a polarised international structure. The fact of global exploitation and under-development in many developing countries remains unchanged.

Critics of Wallerstein’s theory have questioned his focus on international exchange as the defining characteristic of global capitalism; challenged the deterministic tendencies in the notion of a world-system; and suggested that the concept of the semi-periphery overstates the stabilising role that semi-developed economies are meant to play in the international economy.

A second important development in neo-Marxist thinking is the rise of critical theory since the 1970s. Although not primarily concerned with international political economy as such, critical theory has been applied by theorists such as Robert Cox to explain international economic relations. In his book *Production, power and world order: social forces in the making of history* (1987), Cox puts forward a comprehensive theory of the evolution of international hegemonic orders in the modern era. Like Wallerstein, Cox attributes a greater role to states, and hegemonic states in particular, than traditional Marxists had done in the past. Hegemonic states working in alliance with capitalist forces create a global framework within which capitalism can expand globally and establish itself as the dominant mode of production. The novel element in Cox’s work, which is inspired by the thought of Antonio Gramsci, is the key role played by ideological factors. Cox argues that to stabilise the hegemonic order and make it legitimate, it needs to be based on a set of consensual ideas that are widely accepted by other states and civil society at large. The hegemonic bloc that underpins the international order thus rests not only on a collusion of political and economic forces, but also includes key elements of civil society. It is this extended notion of hegemony that explains the resilience of the capitalist order against all Marxist predictions of its imminent collapse.

**Activity**

Both Wallerstein and Cox place greater emphasis on the role of the states system as part of the global capitalist system. Why?

Do contemporary neo-Marxist theories still predict a revolutionary overthrow of the capitalist system as Marx predicted?

**A reminder of your learning outcomes**

Having completed this chapter, and the Essential readings and activities, you should be able to:

- outline the key tenets of Marxist political economy
- explain the contribution made by Lenin to Marxist explanations of imperialism
• contrast Marxist and dependency explanations of global inequality and underdevelopment
• outline the key tenets of neo-Marxist political economy.

Sample examination questions

1. To what extent can dependency theories be described as neo-Marxist theories?
2. What role does hegemony play in contemporary neo-Marxist theories of international political economy?
3. Critically evaluate Lenin’s explanation of imperialism.
Part II: Structures, issues and actors
Notes
Chapter 5: The international trade system

Aims

The aim of this chapter is to consider the evolution of the international trading system and the recent challenges the World Trade Organization has faced.

Learning outcomes

By the end of the chapter, and having completed the Essential readings and activities, you should be able to:

• explain the differences between liberal and mercantilist perspectives on international trade
• discuss the GATT’s key principles and its nature as a multilateral negotiation forum
• explain the success of the GATT/WTO’s trade liberalisation agenda over the last 50 years
• account for the transformation of the GATT into the WTO
• assess the contemporary challenges that characterise the WTO’s current agenda and the Doha Round.

Essential reading


Recommended reading


Further reading


Introduction

International trade existed long before the modern capitalist world economy came into existence. It plays a vital part in supplying a nation with the goods that it either cannot produce (e.g. certain natural resources) or that it cannot produce as efficiently and cheaply as other nations (e.g. because of the lack of technology). Trade is thus a simple economic necessity, and in today’s world it seems impossible to imagine a situation of autarkic economies not connected with each other through trade. Yet, trade is also an eminently political issue, raising questions about which goods can and should be traded (e.g. arms, endangered species), how much dependence on foreign suppliers is acceptable (e.g. energy, food), and how much state intervention is needed to direct trade flows. It should therefore come as no surprise that trade has always been at the centre of the politics of international economic relations.

Websites

Federation of International Trade Associations: www.fita.org/
International Trade Centre: www.intracen.org/
Third World Network: www.twnside.org.sg/trade.htm
UNCTAD: www.unctad.org
WTO Watch: www.tradeobservatory.org/
WTO: www.wto.org/

Theories of trade

The economics and politics of trade has been one of the most contentious areas of debate between different schools of international political economy. Even today, trade liberalisation continues to be a controversial aspect of the globalisation debate. It is important to outline the key...
arguments in this long-standing debate before we turn to the evolution of the international trading order over the last half century.

Mercantilists in the sixteenth and seventeenth centuries saw international trade essentially as a ‘zero-sum’ game in which one nation’s gain was another nation’s loss (see Chapter 2). Based on the assumption that wealth was a fixed quantity that was measured in precious metals, mercantilists argued that trade served the purpose of acquiring wealth in the form of bullion (i.e. silver and gold). A nation stood to grow richer if it managed to export more than it imported, and the role of the state was therefore to manipulate international trade to achieve a favourable trade balance. Mercantilists advocated the use of protectionism and even military force to influence trade flows. To be sure, they were not opposed to trade as such but sought to promote ‘good’ forms of trade (exports and imports of essential goods) and discourage ‘bad’ forms of trade (mainly imports of so-called luxury goods). Given the ‘zero-sum’ perspective on international economic exchange, it should come as no surprise that mercantilists viewed trade as a potential source of international conflict.

Liberals in the eighteenth century criticised mercantilists for misrepresenting the nature of trade and for ignoring the dynamic benefits from it (see Chapter 3). Adam Smith argued forcefully that all nations stood to gain from trade, as it allowed for a greater division of labour and thus stimulated the productive powers of every economy.

Trade was seen by liberals as a ‘positive-sum’ game in which nations could improve their own prosperity and the welfare of the world as a whole. Moreover, because of the mutual advantage to be had from free trade, greater economic openness would foster closer ties and understanding between societies, and reduce tension in international relations. Some liberals in the nineteenth century even went as far as arguing that free trade would help to eradicate war.

Although an emerging consensus among economists supported the free trade doctrine, the debate between mercantilists and liberals continued well into the twentieth century. Neo-mercantilists identified cases where state intervention in trade could benefit the domestic economy, for example through the use of protectionism to nurture so-called infant industries. In response, neo-liberals argued that industries that benefited from trade protectionism would fail to become competitive and that states would find it difficult to eliminate trade barriers once they had erected them.

A different argument against free trade began to emerge in the second half of the twentieth century, suggesting that the existing trade order benefited the rich countries at the expense of the developing world. Inspired by dependency theory (see Chapter 4), this perspective pointed to the unequal trade relations, with developed economies exporting high-value manufactured goods in exchange for low-value primary products from the South. More recently, critics of globalisation have argued that the trade system of the GATT/WTO systematically benefits the countries of the North where protectionism in agriculture continues to disadvantage developing country producers and thus thwarts developmental efforts in the South.

**Activity**

To what extent is the debate between mercantilists and liberals on international trade still relevant in today’s international political economy?
The creation of the GATT

To assess the different claims made in the contemporary debate on trade, it is first important to review the history and nature of the current trading order. The origins of the current trading system lie in the immediate aftermath of the Second World War, when the leaders of the Allied forces sought to establish a new international economic order. The challenge was not only to overcome the economic distortions of the war but also to remove the barriers to trade and capital movement that had been created in the interwar years. Monetary relations were put on a new, more stable, foundation in the form of the Bretton Woods system, which was based on fixed exchange rates with the aim of facilitating free capital flows (see Chapter 6). A similar attempt was made to create an international regime with a strong organisation at its heart to restore international trade. But the agreement on the International Trade Organization (ITO) failed to win support in the US legislature and was consequently shelved. Instead, a much more limited agreement on trade liberalisation in manufactured goods, the General Agreement on Tariffs and Trade (GATT) of 1948, came to form the institutional home for the new international trade order.

The GATT is a multilateral treaty, not an international organisation, which provides a forum for successive trade liberalisation talks in the post-war era. It lays down principles and norms for trade policy, but the authority to take decisions on tariff reductions lies firmly with the contracting parties (i.e. the member states). Its ultimate aim has been to reduce trade barriers, focusing originally on tariffs on manufactured goods. The contracting parties of the GATT have always been keen to retain some degree of control over trade policy, and built into the agreement several safeguard provisions and exceptions from the free trade principle. The GATT never aimed at creating a world of free trade. Instead, the GATT was envisaged as an ongoing attempt at lowering trade barriers through reciprocal agreements in a multilateral setting. It is this principle of reciprocity that stipulates that tariff reductions are negotiated on a ‘give-and-take’ basis, which makes GATT trade talks often look more like a form of mercantilist bargaining than enlightened free trade practice.

The GATT’s most important principles are reciprocity, transparency and non-discrimination. Reciprocity is present in the system of negotiated, multilaterally balanced, agreements on trade liberalisation. All parties are to conduct their trade relations and trade interventions in as transparent a way as possible, so as to avoid hidden forms of protectionism and facilitate multilateral negotiations on reducing trade barriers. The principle of non-discrimination ensures that all members of the GATT can enjoy the benefits of trade liberalisation in the same way, irrespective of their economic size and power. Two variants of this principle exist in Articles I and III of the agreement respectively:

- the most-favoured nation (MFN) principle, which states that the rights and obligations given to one party extend to all parties of the agreement
- the principle of national treatment, which obliges all parties to treat domestic and foreign producers in the same manner (i.e. not discriminate against foreign competitors to help domestic firms).

Activity

At this point, read Articles I, II and XI of the GATT agreement (available at the WTO’s website).
At the same time, the GATT recognises that countries may wish to protect certain areas and industries from foreign competition. When a country experiences a sudden influx of imports that cause substantial harm to a domestic industry, Article XIX of the GATT allows this country to take safeguard measures in the form of tariffs or import restrictions, provided that this is done in a non-discriminatory way and that compensation is paid to those foreign companies affected by the measures. Other exemptions concern the exclusion of agriculture from the GATT’s early trade liberalisation efforts, trade restrictions for human health or environmental reasons (Article XX) and the use of regional trade agreements and preferential rules for developing countries.

The many exceptions that are allowed under the GATT – and under the Bretton Woods system – have led some analysts to argue that the post-war international economic order embodied a form of ‘embedded liberalism’ rather than a return to nineteenth century-style classical liberalism. John Ruggie’s notion of embedded liberalism points to the fact that the United States and its allies had to ensure that the move towards opening up international markets did not harm the domestic effort to rebuild war-torn economies and the welfare state. A compromise was therefore needed between the liberal ideal of creating an open international order and the need for a sufficiently high degree of state intervention in the domestic economy to create a stable and legitimate international order.

Activity

Some observers argue that the GATT’s compromise of embedded liberalism has come under threat. Why might this be the case?

What role, if any, did developing countries play in the creation and evolution of the GATT’s central norms?

Trade liberalisation under the GATT and the rise of the ‘new protectionism’

The compromise of embedded liberalism in the GATT allowed for an unprecedented level of trade liberalisation after the Second World War, through successive rounds of trade talks. The GATT system proved to be a great success both in terms of driving down tariff levels for manufactured goods and in terms of attracting a growing number of members. GATT negotiation rounds became a regular feature on the international diplomatic calendar, with the Kennedy Round (1963–67) achieving average tariff cuts of 35 per cent for over 60,000 internationally traded products. At that time, the major industrialised countries experienced average economic growth rates of four per cent per year but trade volume grew by eight per cent per year.

But maintaining the momentum in trade liberalisation proved to be difficult. The relative success in reducing tariffs on manufactured goods contrasted with the failure to agree a reduction of trade barriers in areas outside the GATT’s original remit. Agriculture was one of the most controversial areas where GATT rules did not apply. As global economic integration proceeded, the GATT’s inadequate rules for trade in services and international investment also gave rise to concern. The Kennedy Round had also failed to deal with the growing use of non-tariff barriers, and with the onset of a prolonged economic crisis in the 1970s, it seemed as if support for the GATT was beginning to wane. Yet, with hindsight we know that the GATT’s inbuilt flexibility and gradualist approach to multilateral negotiations helped to overcome the difficulties of the 1970s.
The conclusion of the Uruguay Round in the early 1990s signalled a renewed consensus among the major industrialised countries to push ahead with a widening and deepening of the GATT’s trade liberalisation agenda.

One of the most intricate issues that came to the fore during the economic disturbances of the 1960s and 1970s was the rise of the so-called ‘new protectionism’. The economic difficulties that brought down the Bretton Woods system (see Chapter 6), and that were further aggravated by two oil crises in the 1970s, created renewed incentives for countries to fall back on protectionist practices. External economic shocks and inflation combined with a stagnant economy (‘stagflation’) posed severe challenges to many of the major industrial sectors in the North. The economic success of Japan and other East Asian countries also increased the pressure on Western governments to shield their economies from the new competitive pressures. Tariffs having been removed from the protectionist toolbox, governments resorted to non-tariff barriers (NTBs) to keep out unwanted competition from abroad. Such NTBs comprised a wide range of instruments: voluntary export controls that set a quantitative limit on imports from certain countries; government procurement policies that favoured domestic producers; or national standards (e.g. in the area of health, consumer protection and environment) that discriminated against foreign producers. The key problem with such measures has been that they lack the transparency that the GATT requires, which complicates the task of multilaterally agreeing on a reduction of NTBs; and they erode the boundary between what can be considered a legitimate domestic instrument of regulation and what foreign competitors perceive as a hidden form of protectionism.

In the end, the GATT survived the economic disturbances and renewed protectionist pressures of the 1960s and 1970s. The Tokyo Round (1973–79) made a first, though incomplete, attempt to deal with non-tariff barriers. But the major breakthrough came with the Uruguay Round in the 1980s, by which time a renewed multilateral consensus on the need for trade liberalisation had swept away the doubts and threats of the era of the new protectionism. Why was it possible to avert a deeper crisis for the GATT? With hindsight, it is clear that the major industrialised countries had maintained their support for the GATT’s trading order despite the growing domestic pressure for protectionism. Jagdish Bhagwati (1988) suggests that resorting to NTBs may have been a necessary means of ‘appeasing’ domestic interest groups and allowing for a more gradual adaptation to the new competitive environment in the global economy. But as Helen Milner (1988) argues, the balance between nationalist industries favouring protectionism and internationalist industries supporting free trade had shifted sufficiently in favour of the latter by the 1970s to allow the GATT to survive. Unlike in the 1930s, when the rise of protectionism contributed to the collapse of the international economic order, global economic integration had progressed sufficiently in the post-war era to withstand economic shocks and structural shifts in competition.

Activity

Which non-tariff barriers are still widely used by the major trading nations? Can you think of recent examples?

What reasons may lead companies to support either trade protectionism or trade liberalisation?
From the creation of the WTO to the Doha Round

The Uruguay Round, which lasted from 1986 to 1993 and came into force in 1995, produced a 22,000-page treaty with the broadest coverage of trade issues ever in the history of the GATT. The Contracting Parties signed 29 separate accords, covering areas such as agriculture, textiles, services, intellectual property rights and investment. Tariff levels on most manufactured goods were reduced to only a few percentage points, thus making them insignificant for most industrialised countries. Economists estimated that the achievements of the Uruguay Round would result in an increase of global welfare by 2002 in the region of $270 billion.

Apart from widening the trade agenda, the Uruguay Round's lasting achievement was a deepening of trade rules through the creation of the World Trade Organization (WTO) and a binding dispute settlement mechanism. The WTO is a fully-fledged international organisation that puts the GATT and its associated trade agreements on a more comprehensive and permanent footing. It serves as an umbrella organisation for all trade rules and obligations created by the member states. Through the newly introduced Single Undertaking, all trade rules are now applicable to all member states, irrespective of their level of economic development (with some minor exceptions). This is an important development as it reverses a previous trend that had granted developing countries preferential treatment under the GATT, which included asymmetrical rights and obligations as enshrined in the principle of Special and Differential Treatment (SDT).

One of the key institutional innovations of the WTO is the dispute settlement mechanism with independent panels that adjudicate trade disputes. Whereas the GATT's dispute settlement procedure allowed for long delays in the panels' proceedings, the outcomes of which were not legally binding unless both sides of a dispute accepted the ruling, the Uruguay Round agreement built on this procedure and strengthened it in several important ways. It made the panels' rulings binding unless overturned by a decision of all contracting parties, including those involved in a dispute; it added the Appellate Body to review the decisions of the dispute panels and to take final decisions; and, most controversially, it enabled the WTO to authorise the use of sanctions against parties that were found to be in breach of WTO rules. The WTO's dispute settlement mechanism has since been used repeatedly to settle conflicting interpretations of trade disciplines, and has not only found in favour of the most powerful trading countries but also against them. On some occasions, even developing countries have won cases brought against the United States or the European Union, signalling also a greater resolve among developing countries to enforce, rather than seek exemption from, international trade disciplines.

Activity

The WTO website gives details and rulings of cases decided by the dispute settlement mechanism. Look up cases that involve developing countries, such as DS283 on export subsidies on sugar, and consider the panel's reasons for reaching its decision.

But the position of the developing world in the WTO has remained controversial ever since the Uruguay Round came into force in 1995. Despite the fact that developing countries are now in a majority in the WTO, allowing them to block decisions by the Ministerial Conference, the highest authority of the trade body, many remain marginal in the trading system, both in terms of share of international trade flows and participation in decision-making. The poorest member states especially complain that
for them, the Uruguay Round’s promises remain largely unfulfilled. Among the manifold complaints they have voiced are the problems they face with implementing the Uruguay Round’s vast range of agreements; the lack of progress that has been made in improving market access for producers from the South, particularly in Northern agricultural markets; and the creation of new trade rules and disciplines in areas that are highly asymmetrically structured and favour Northern industry interests over Southern developmental needs. This last concern has been given powerful expression in debates over the Trade-related Aspects of Intellectual Property Rights (TRIPs) Agreement. Some of the least developed countries have argued that their efforts to overturn rules that prevent them from acquiring cheap medicines from generic fight diseases such as malaria or AIDS were being hampered by TRIPS drug producers. In response to this debate, the WTO decided in 2003 that under certain narrowly defined circumstances, the TRIPS’s overriding concern with protecting the rights of pharmaceutical companies had to be sacrificed in favour of the public health needs of developing countries.

Activity
At this point, for a further discussion of developing countries in the WTO, read Amrita Narlikar (2006).

While the partial victory of developing countries in the TRIPS/medicines conflict has signalled an improvement in their bargaining position, their influence in the WTO remains uneven. On the one hand, developing countries have forced the WTO to focus more clearly on their developmental needs. The move to name the current trade liberalisation round the ‘Doha Development Round’ signals at least recognition among the leading industrialised countries of the failures and shortcomings of the trading order in the area of promoting development. Of course, the fact that developing countries now are in a majority in the WTO’s ‘one country one vote’ decision-making system has given them an effective veto power over any future trade deal. In this sense, the trade body’s future depends to a large extent on its ability to accommodate the demands of the increasingly assertive group of developing countries.

On the other hand, however, it is some of the larger emerging economies, most notably China, India and Brazil, that have become important and powerful players in international trade negotiations. In fact, their disagreements with the established powers in the WTO (chiefly the US and Europe) are one key reason behind the difficulties in reaching a broader international agreement in the Doha Round. By contrast, smaller and poorer developing countries continue to complain about their inability to shape specific outcomes in ongoing trade talks.

The Doha Round, which started in 2001 and was temporarily suspended in 2008, has so far failed to narrow the differences between the main powers. The disagreements focus on the removal of barriers to trade in agriculture, market access and implementation issues, among others. They pit developed and developing countries against each other as well as the US against the European Union. The complexity of striking multiple bargains between different groups of countries, combined with a diminution of the perceived benefits of a trade deal, have frustrated negotiators to date. At the time of writing (December 2010), a fresh attempt was being launched to restart negotiations, but it is far from clear whether this will break the deadlock in the Doha Round.
Activities

For a more detailed discussion of the current Doha Round agenda and the problems with reaching an agreement, read Jones (2009).

Identify the key areas of concern to developing countries as identified in the official agenda of the Doha Development Round (available on the WTO website).

A reminder of your learning outcomes

Having completed this chapter, and the Essential readings and activities, you should be able to:

• explain the differences between liberal and mercantilist perspectives on international trade
• discuss the GATT's key principles and its nature as a multilateral negotiation forum
• explain the success of the GATT/WTO's trade liberalisation agenda over the last 50 years
• account for the transformation of the GATT into the WTO
• assess the contemporary challenges that characterise the WTO's current agenda and the Doha Round.

Sample examination questions

1. Why did the GATT survive the rise of the ‘new protectionism’ in the 1970s?
2. To what extent is the GATT/WTO system a ‘free trade’ order?
3. Why have developing countries felt disadvantaged in the GATT/WTO trading order?
Notes
Chapter 6: The global financial and monetary order

Aims

The aim of this chapter is to review the history of international monetary cooperation and consider the role of the International Monetary Fund.

Learning outcomes

By the end of the chapter, and having completed the Essential readings and activities, you should be able to:

- explain the importance of international monetary cooperation
- describe the key elements of the Bretton Woods system
- explain the concept of 'embedded liberalism'
- explain the collapse of Bretton Woods and the transition to flexible exchange rates worldwide and a single currency in Europe
- assess the changing role of the IMF over the last 50 years, outline its functions, and show the exogenous and endogenous limits to its role in the international financial and monetary system
- set out the problem of moral hazard in the context of international lending and financial crises.

Essential reading


Recommended reading

Cohen, Benjamin J. 'The International Monetary System: Diffusion and Ambiguity', International Affairs 84(3) 2008, pp.455-70.
* strongly recommended

Further reading

A stable international monetary order is important for several reasons. It gives predictability and stability to foreign exchange markets, whether through fixed exchange rates or a managed system of floating exchange rates, which in turn provides a conducive environment for the expansion of international trade and economic growth. International monetary cooperation helps with the gradual elimination of balance-of-payments problems that occur because of shifting patterns of economic activity and growth across different countries. And as we have seen, in the post-1945 era in particular, international monetary systems provide access to credit in emergency situations, where economic shocks threaten the stability of countries and, through international contagion, the international economy as a whole. In Barry Eichengreen’s words, ‘the international monetary system is the glue that binds national economies together’ (1996: 3).

For the international monetary system to work, cooperation between states, and especially the major economic powers, is essential. Although recent trends towards financial liberalisation have created a highly integrated global financial market which has allowed new economic actors to flex their muscles, states remain central to the provision of international order and stability. Rather than seeing the globalisation of finance as undermining the power of the state, we should instead focus
on the changing role that states play in providing an international political framework in which financial markets can operate. It is usually in times of financial crises and economic shocks that the regulatory role of states, and sometimes their failure to provide stability, comes to the fore. The global financial crisis of 2008 was a stark reminder of the critical role that states play in stabilising the global financial system.

The rise and decline of the Bretton Woods system

The last two centuries have seen a succession of different international monetary systems, none of which have managed to provide a lasting, long-term, international order. The era of the Gold Standard, which lasted from the 1870s to 1914, is widely credited with providing stability and confidence in the major currencies that formed part of the system. Its stability, however, was to a large extent dependent on the willingness of participating countries to subject domestic economic objectives to the overriding concern for exchange rate stability (e.g. by repressing domestic economic growth in order to support the fixed currency rate).

The Gold Standard was suspended during the the First World War, but following the end of the war there was a futile attempt to restore the Gold Standard at pre-war exchange rates. From the 1930s onwards, the economic dislocations of the war forced one country after another to abandon attempts to peg their currency to the Gold Standard, and the system quickly collapsed amid growing restrictions on international capital flows and protectionist trade policies. The economic crisis of the inter-war years, which was one of the factors contributing to the outbreak of the Second World War, forced policy-makers to reconsider the need for international monetary cooperation and led to international efforts to create a more lasting order based on the institutions of the Bretton Woods system.

At the Bretton Woods conference in 1944, the United States and Britain played a pivotal role in designing a new framework for international monetary relations. Bretton Woods was to provide international stability while avoiding the shortcomings of previous monetary systems. The leading economic powers restored a system of fixed exchange rates and international cooperation linked with the promise of domestic autonomy in economic policy-making, which John Ruggie dubbed the ‘compromise of embedded liberalism’ (see Chapter 5). Domestically, many countries adopted the new economic doctrine of Keynesianism, which saw a much greater role for the state in stimulating domestic economic activity and promoting full employment. They were keen to balance the need to intervene in the economy at home with the desire to create greater economic openness abroad.

The Bretton Woods system was based on four key elements:

- The member states adopted fixed but adjustable exchange rates, with the US dollar serving as an anchor currency. The dollar itself was linked to gold, and other currencies were allowed to fluctuate within 1 per cent of their fixed rate to the dollar. If a fundamental disequilibrium made this fixed exchange rate untenable, then currency rates could be adjusted by up to 10 per cent on a unilateral basis or over 10 per cent with the approval of three quarters of the members of the International Monetary Fund.

- Although the removal of restrictions on capital movement was the ultimate goal, the Bretton Woods system allowed countries to retain capital controls initially to help them stabilise the system and adjust their domestic economy to it.
• A ‘scarce-currency’ clause was established that allowed restrictions of imports from countries that ran persistent payment surpluses and whose currencies became scarce within the Fund. This provision served predominantly the interests of European countries that faced severe dollar shortages in the aftermath of the Second World War.

• The International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD, better known as The World Bank) were created as the main institutions supporting the new international monetary order. The IMF’s task was to provide policy guidance and short-term financial loans to aid governments in dealing with severe balance-of-payments imbalances. The World Bank’s remit was to offer more long-term lending to support economic restructuring and growth (see Chapter 7).

In many ways, the Bretton Woods system was a compromise, chiefly between the USA and Britain. It represented a significant improvement on the system of the interwar years, in that it provided institutional and financial backup to deal with severe payments imbalances and allowed for a more flexible mechanism of currency adjustment should those imbalances persist. But it worked well only as long as international capital flows were limited and did not pose a threat to fixed exchange rates. Indeed, psychological and political problems prevented countries from using the adjustment mechanism in a timely and effective fashion. Most countries delayed a change in their currency’s exchange rate, which was considered politically embarrassing, until it could no longer be avoided. Moreover, IMF lending became increasingly insufficient as global financial flows grew in the post-war era, and the IMF’s supervisory role turned out to be a blunt instrument; member states defended their economic policy autonomy against any intrusion from an international authority.

With hindsight, the shortcomings of the Bretton Woods system suggest that it was bound to fail. Indeed, economists now argue that the fact that the system allowed European countries to retain capital controls until the late 1950s – an aberration from its intended goal of financial liberalisation – explains why it functioned relatively smoothly in the first 10 to 15 years. The lack of convertibility kept capital flows under control during that time. As soon as convertibility was restored, however, the strains in the system began to show. The 1960s saw both a growth in international financial flows and growing balance-of-payments difficulties in the United States. Both factors were to seal the fate of Bretton Woods. The USA’s increasingly inflationary policy threatened the fixed gold-dollar rate that was at the heart of the system, eventually forcing the Nixon Administration to end the dollar’s gold convertibility and devalue the dollar in 1971. If the USA had exercised some form of hegemonic leadership in creating and maintaining the Bretton Woods system in the early post-war years, it no longer had the desire to do so. Other nations also chose to prioritise domestic policy objectives, and a switch to floating exchange rates thus became the only practical alternative. In 1973, the Bretton Woods system came to an end with the decision to let exchange rates float.

**Activity**

What are the major benefits of a fixed-exchange rate system? What are its costs?
Global monetary order after Bretton Woods

Advocates of the move towards flexible exchange rates argued that this solved the fundamental conflict between domestic policy autonomy and maintaining fixed exchange rates. In their view, national economies would be more independent of each other, with the floating exchange rate moderating the impact of differing business cycles in the major economies. In contrast, critics of the new system argued that flexible rates would spell disaster in the global economy. The possibility of wildly fluctuating rates would threaten trade and undermine the long-term planning of companies operating internationally. Moreover, governments might be tempted to use aggressive devaluations of their currency to boost export industries.

While it is true that the switch to flexible rates made currencies more volatile, especially in the case of the dollar, the fluctuations between the major currencies did not lead to economic turmoil. The dollar continued to be the main reserve currency in the international system, giving the USA continued leverage as the predominant economic power. And ad hoc coordination of macroeconomic policy and stabilisation of currency markets replaced the more institutionalised system of the Bretton Woods. Throughout the 1980s, the world’s leading economies met to stabilise international monetary relations, and particularly the wildly fluctuating dollar, first in the Plaza Accord of 1985 and then in the Louvre meeting of 1987. These attempts at policy coordination helped somewhat to restore order in currency markets, but never managed to lock in the necessary policy adjustments that were needed to reach previous levels of monetary cooperation.

Frustrated by a lack of international cooperation, the European countries sought their own solution for the volatility of currency markets by creating a separate monetary order for Europe. Europe’s leading economies were more open to international trade than the USA and thus placed a higher premium on stability and predictability. These efforts were supported by the underlying institutional framework of European integration, in the form of the European Economic Community (see Chapter 10). A first step towards that goal was made by the creation of the ‘European Snake’ in 1971, which limited the fluctuations of European currencies against each other to 4.5 per cent. But in an environment of severe external shocks, mainly in the form of oil price rises and inflationary pressures, the Snake failed to live up to expectations. It was replaced in 1979 with the European Monetary System (EMS), a much stronger institutional arrangement that included an element of policy oversight that was missing in the Snake. For some, the EMS could only serve as an interim step towards a full monetary union and single currency, as only this final merging of monetary authority would remove the possibility of reckless national policies. The withdrawal in 1992 of Britain and Italy from the EMS underlined the weakness of its monetary disciplines. The EMS crisis of 1992 gave the final impulse to the creation of a full monetary union, which came into existence in 1999 as European Monetary Union (EMU), with the Euro replacing national currencies as the new single currency. By eliminating national monetary autonomy, EMU provided the ultimate solution to the inherent conflict between fixed rates and domestic autonomy.

The Eurozone, as the group of countries that adopted the Euro came to be known, enjoyed years of stability after the creation of the single European currency. In the wake of the 2008 global financial crisis and under the strains of rapidly rising budget deficits, however, the Euro itself
has come under pressure. In 2010, the EU needed to set up a mechanism for supporting members of the Eurozone that experience difficulties in refinancing their public debt amidst growing unease among international lenders over European countries’ long-term fiscal stability. The Euro crisis has thus brought into sharp focus the difficulty of sustaining a common currency system that is not based also on a full political union with centralised control over economic and fiscal policy.

Activity
Consider the experience with European Monetary Union so far. What were the major arguments for and against creating EMU?

The IMF and international debt crises

The IMF’s original role was to provide short-term lending to countries with balance-of-payments problems. With the end of the Bretton Woods system of fixed rates, however, this role was no longer central to the IMF’s mission. With global financial liberalisation and greater capital flows to emerging economies in the developing world during the 1970s, the IMF shifted its focus to dealing with problems of indebtedness and long-term structural economic problems. In a sense, therefore, the IMF managed to reinvent itself to retain relevance in the post-Bretton Woods era. One of the key events of the 1980s that was to underline the importance of the IMF was the debt crisis that afflicted a number of developing countries.

Between the early 1970s and the mid-1980s, total debt by governments rose from around $100 billion to nearly $900 billion. While being indebted is not in itself an economic problem – the United States has one of the highest sovereign debt levels in the world – countries that are unable to service, let alone repay, their debt are faced with stark economic dilemmas. In the case of the developing countries that took on an ever-growing debt burden in the 1980s, indebtedness became a key factor holding back their developmental efforts. In Latin America – with some of the most heavily indebted countries of all, such as Mexico, Argentina and Brazil – the 1980s became known as the ‘lost decade’.

The debt crisis started in 1982, when the Mexican government nearly defaulted on its loan obligations. With a debt burden of $86 billion, Mexico’s debt crisis soon assumed international dimensions. Heavily exposed creditor nations such as the United States could not afford to let indebted countries default, as this would threaten the stability of their own financial system. The USA and European governments, private banks and the IMF responded by setting in motion a process of debt rescheduling that aimed at averting a global crisis while allowing for structural reforms to take place. In this context, the IMF assumed the central role of negotiating rescheduling terms with debtor nations, leading the way for agreements between debtors and private banks. The creditors thus acted like a cartel, and were able largely to impose their preferences on the affected developing countries. However, the threat of international contagion effects should large debtor nations default, served to rein in the power of creditors and forced them to continue to supply capital to pull the international financial system back from collapse.

Activity
Who was responsible for the onset and depth of the 1980s debt crisis: debtor countries, creditor countries, or both?

Financial crises seem to be endemic in the global financial system. Speculative bubbles, macroeconomic policy failures and volatile market reactions are a recurrent feature of the international economy. From stock market crashes to bank collapses and debt crises, the international financial system is prone to what in retrospect may look like irrational market behaviour and international contagion (i.e. the rapid spread of a crisis from one country to another). In a highly interdependent global economy, therefore, managing financial crises is of utmost importance to create a stable international order. In the last two decades, two major crises have rocked the international system. The first, which hit primarily Asian economies in the late 1990s, did not translate into a major economic crisis worldwide. The more recent financial crisis of 2008, however, had all the hallmarks of a global economic crisis, with potentially devastating effects for a great number of major economies. Both are worth considering in more detail.

The Asian crisis of 1997 exhibits some of the central features of financial crises. Attracted by a prolonged period of economic growth in the newly industrialising countries (NICs) of East Asia, the so-called East Asian ‘miracle’, private capital was pouring into the region to the tune of $40 billion and $32 billion in 1995 and 1996 respectively. Much of this capital inflow, however, was short-term and could be reversed quickly if the economic climate worsened. This is indeed what happened from 1997 onwards, with net capital outflows from East Asia reaching $40 billion in 1998. The crisis was triggered by Thailand’s decision to end the currency peg of its national currency with the US dollar in response to speculative pressure from currency traders. A sense of crisis soon began to spread throughout the region and beyond, especially Latin America and Russia. Speculative bubbles in regional asset markets, such as property investment, burst and laid bare a dysfunctional banking system that was heavily exposed to bad debt and poorly regulated by national authorities in East Asia.

The financial crisis quickly developed into a broader economic crisis in East Asia, with many countries seeing both an outflow of capital and a decline in economic prosperity, with often disastrous social consequences. The international response to the crisis was initially slow and insufficient. The IMF’s aid offers to Thailand and other affected countries failed to restore confidence or prevent the international contagion effect. Backed by the United States, the IMF prescribed a strong and bitter medicine: the troubled economies of East Asia had to cut back public spending, raise interest rates and increase the value of their currencies. These measures were meant to restore the credibility of macroeconomic policy in the region, but there was a high social cost. Cuts to food subsidies and reductions in social welfare budgets forced large parts of East Asia’s societies into poverty and created a climate of social unrest.

The lessons of the East Asian crisis fed into a wider international debate over the role of the IMF in preventing, and managing, financial crises. The key questions in this debate concern, among other issues:

1. The conditionality of IMF aid: As the debt crisis of the 1980s had already shown, conditions imposed by IMF loans often led to serious clashes with local governments and populations. The IMF is frequently accused of applying a one-size-fits-all policy of structural reforms that ignore the special circumstances of each country.
2. The problem of moral hazard: By offering aid before or during a financial crisis, the IMF may encourage countries to abandon economic prudence and rely on bailouts by international donors. Thus, by trying to prevent financial crises through early intervention, the IMF may in fact contribute to their outbreak by reducing the costs of crises to be borne by governments and private investors.

The debate as to how to respond to financial crises continues without showing any signs of an international agreement. The IMF has responded to criticisms by reviewing its lending practices and moving towards more tailor-made loan agreements with individual countries. Some emerging economies in the developing world have re-established capital controls to better manage volatile flows of short-term capital. But despite talk about a new international financial architecture in the aftermath of the Asian crisis, the policy response by the international community has been one of gradualism and, to some extent, institutional inertia.

A decade after the Asian crisis, another financial crisis hit the world economy in 2008, this time with global dimensions and more far-reaching consequences. The crisis had its origins in events that started in 2007 in leading industrialised countries and became known as the ‘credit crunch’. Over many years of low interest rates, lax bank lending practices and inadequate regulation by governments, a speculative bubble had been building up in the real estate sector which finally burst in 2007. Starting with the collapse of the US market for so-called subprime mortgages (i.e. mortgage lending to the riskiest category of consumers), banks that were heavily exposed to such forms of lending soon faced massive write-downs of bad debt. As market confidence quickly evaporated, banks around the world encountered severe difficulties remaining solvent, with some collapsing and others needing to be rescued by their governments.

The risks to the global financial system became apparent in 2008 when Lehman Brothers, one of the world’s largest investment banks and heavily exposed to the subprime mortgage crisis, went bankrupt. The US government refused to bail out Lehman Brothers, but as panic started to spread in the worldwide market and threatened to bring down other major long-established banks, the government authorised a large rescue package to support banks at risk and to inject a fiscal stimulus into the ailing US economy. By this time, the global dimensions of the crisis were all too visible, with ever more governments in the industrialised world stepping in to support the banking system and economic activity more generally. 2009 saw the worst global recession since the Great Depression in the early 1930s.

To some, the global financial crisis signalled a wider malaise of global capitalism, indeed a fundamental crisis of capitalism as Marx and neo-Marxists had long predicted. To others, the main reason behind the events of 2007–08 was a weak regulatory system for the banking system, which failed to detect the build-up of a speculative bubble in the housing market and allowed banks to take overly large risks that posed a wider systemic threat to the stability of the financial system. In either case, confidence in the functioning of the market system was severely shaken, and governments around the world were called upon to step in and rescue the banking system. In the immediate aftermath of the crisis, the political pendulum seems to have swung back in favour of governments that came to the rescue of the global economy. However, the large-scale spending programmes combined with a fall in tax revenue due to the global recession has forced governments to cut back expenditure again in an effort to balance budgets and avoid a further loss of confidence in global...
financial markets. It is thus too early to tell how the global financial crisis will affect the role of the state in the global economy.

**Activity**

Read Reinhart and Rogoff (2008) on the history of financial crises. What lessons does history hold for the prevention or management of financial crises?

**A reminder of your learning outcomes**

Having completed this chapter, and the Essential readings and activities, you should be able to:

- explain the importance of international monetary cooperation
- describe the key elements of the Bretton Woods system
- explain the concept of ‘embedded liberalism’
- explain the collapse of Bretton Woods and the transition to flexible exchange rates worldwide and a single currency in Europe
- assess the changing role of the IMF over the last 50 years, outline its functions, and show the exogenous and endogenous limits to its role in the international financial and monetary system
- set out the problem of moral hazard in the context of international lending and financial crises.

**Sample examination questions**

1. How, and why, has the role of the IMF changed over the last 50 years?
2. ‘The Bretton Woods system could have worked if the United States had not abandoned it.’ Discuss.
3. Why has the IMF found it so difficult to prevent and respond to international financial crises?
Notes
Chapter 7: Economic development

**Aims**

The aim of this chapter is to consider the problems of poverty and inequality and to review developmental policies pursued since decolonisation.

**Learning outcomes**

By the end of the chapter, and having completed the Essential readings and activities, you should be able to:

- explain the problem of poverty and inequality in the developing world
- explain the contrasting views on the role of the state in economic development, and assess the strategies propounded by these different schools of thought
- critically assess the contribution that the Washington Consensus has made to developmental efforts in the South
- discuss the limits of the World Bank's contribution to economic development
- outline the pros and cons of international aid.

**Essential reading**


**Recommended reading**

Collier, P. *The bottom billion: why the poorest countries are failing and what can be done about it*. (Oxford: Oxford University Press, 2008) [ISBN 0195374630].


**Further reading**


Landes, David S. *The wealth and poverty of nations: why some are so poor and some so rich*. (New York: W.W. Norton, 1999) [ISBN 0393318885].

Naim, Moses 'Washington Consensus or Washington Confusion?', Foreign Policy 118 2000, pp.87–103.
Poverty and economic inequality between and within societies are pervasive in today's global economy. Poverty is, of course, not a new phenomenon and is unlikely to disappear soon despite the technological advances and economic growth the world has seen over the last half century. Nevertheless, poverty eradication and economic development remain high on the agenda of the majority of the world's nations. Finding answers to the pressing problem of hunger and malnutrition requires an understanding of the links that exist between the international economy, national economies and poverty. The field of international political economy is therefore one of the important starting points in the study of development issues.

As discussed in previous chapters, some theories of international political economy make an explicit link between poverty and inequality on the one hand and the global economic system on the other. Theorists in the Marxist tradition largely blame global capitalism for the lack of progress in fighting poverty. In their view, underdevelopment is the result of the unequal integration of poorer economies into the capitalist world economy. In contrast, liberals emphasise the growth potential that arises from participation in international trade and production. They advocate structural reforms in developing economies to reduce barriers to investment and entrepreneurship. Thus, in explaining poverty and inequality, Marxists put the emphasis on the international system while liberals tend to concentrate on the conditions in the developing world.
Mercantilists, on the other hand, recognise that global inequality has existed throughout the history of the modern states system. In fact, economic inequality is intimately linked with the inequality of power in the international system. From a mercantilist perspective, the role of the state is of critical importance in overcoming the predicament of underdevelopment and narrowing the global inequality gap, but in the long run significant inequalities will persist.

Poverty and inequality: key indicators

The most common and straightforward indicator for economic wealth and poverty is gross domestic product (GDP). This indicator measures the money values of the final goods and services produced in a country during a certain period, usually one year, by residents working within that country. Using GDP comparisons, however, has certain drawbacks. What matters to people is not so much the absolute level of income, but their ability to purchase the goods they need to sustain a decent life. Since prices vary considerably between Northern and Southern economies, using purchasing-power-parity (PPP) conversion rates provides a more meaningful picture of global wealth distribution and inequality. This indicator allows us to compare the capacity of individuals in different countries to buy a similar basket of goods. According to the 2010 Human Development Report, the average PPP-based income of individuals was $47,094 in the United States, $35,087 in the United Kingdom, $13,927 in Malaysia, $4,585 in Paraguay and $809 in Sierra Leone. The picture that emerges from this comparison of PPP-based income figures is one of profound inequality between the richest and poorest nations. But it is important to note that inequality exists not just between but also within societies, including developing countries. In Brazil, for example, nearly half of all privately owned real estate is in the hands of only 1 per cent of the population.

Nominal income figures alone provide only a rough estimate of the state of development and poverty. A more nuanced picture emerges if we look at a wider range of indicators such as nutrition, health provision, infant mortality and educational standards. The United Nations' Human Development Report integrates such indicators in its annual ranking of nations on a scale of low, medium and high human development. The picture that emerges differs to some extent from GDP-based league tables: for instance, Paraguay ranks much higher than South Africa with a per capita income of $9812 because Paraguay scores higher on social indicators such as life expectancy. This suggests that economic growth, although an important factor, is not a guarantee for human development. Other factors, most notably public policy in the areas of health and education, contribute to the overall state of development of any society.

Activity

Consider the position of your country in the latest ranking produced by the Human Development Report (available at: http://hdr.undp.org/reports/). Which countries with similar GDP income figures are ranked higher or lower, and why?

It is important to note that it is highly misleading to speak of the Third World or the developing world as if it were a homogeneous group of countries. Contained within it are countries that have achieved industrialised country levels of per capita income (Singapore, Taiwan); countries that are experiencing rapid economic growth and declining poverty (Thailand, Malaysia); countries that are growing economically but
are failing to reduce poverty (especially in Latin America); and finally the poorest countries in sub-Saharan Africa that have actually fallen behind economically in the last two decades and are facing growing levels of poverty (Zimbabwe, Congo). The diversity of economic development paths raises important questions concerning: the domestic and international factors influencing economic growth; the role of the international community in alleviating poverty; and the policies that countries should adopt to improve their economic situation in a sustainable fashion.

### Evolution of development thinking

At the heart of the debate about why some countries are growing faster than others, and what should be done to combat poverty, lies a fundamental disagreement about the relative importance of the state and the market. To put it simply, industrialised countries and liberal economists argue for market liberalisation and free international economic exchange, while many developing countries and state-centric mercantilists place greater emphasis on state intervention in the domestic economy and in international trade. To some extent, of course, this is an oversimplification. Indeed, a whole range of developmental theories has evolved over the last 50 years, proposing different state–market mixes and emphasising factors that are ignored in this simple dichotomy. Despite recent advances in our understanding of economic growth, however, a consensus on the best path towards economic development remains elusive.

Post-1945 developmental theory stressed the differences in conditions between developed and developing countries and argued for active state intervention to set poorer economies on a path of growth. The economic problem was conceived of as one of ‘catching up’, or ‘late development’, which was compounded by developing countries lacking the economic advantages that nineteenth century ‘late developers’ such as Germany and Japan had. According to this view, developing countries were held back by lack of capital and a low savings rate, a weak entrepreneurial culture and poor educational standards. These factors prevented poorer nations from growing by just participating in international economic exchange. In fact, their reliance on exports of natural resources and commodities, combined with declining prices for such goods (known as the worsening of the terms of trade), meant that they were locked into a permanently dependent state. It was the state’s role, so the argument went, to break through this cycle of underdevelopment and dependence.

Two major policy prescriptions followed from this diagnosis and were applied, to varying degrees, in the immediate aftermath of decolonisation:

- International aid and technology transfer were needed to build up the capital stock in southern economies.
- The state had to promote the creation of domestic industries by shielding them behind trade barriers and promoting a strategy of ‘import substitution’.

More radical analysts, the dependency theorists, went one step further and argued that the plight of developing countries was caused by their integration into global capitalism, and that these countries therefore had to cut themselves off from the exploitative global economic system. They recommended nationalising foreign firms, greater self-reliance and an increase in economic exchange among developing countries (see Chapter 4).

In the 1950s and 1960s, relatively high growth rates seemed to suggest
that the policies prescribed by these developmental theories were working. Countries such as Brazil, Mexico, India and Egypt were actively promoting domestic industrial growth behind trade barriers, and many other developing countries followed suit. But after the initial economic boom, many developing countries failed to wean their industries off the subsidies and trade protection that had allowed them to grow. With no incentive to become more efficient, these industries failed to compete internationally, and growth rates began to fall. The notable exceptions were the East Asian economies of South Korea, Taiwan, Hong Kong and Singapore (the so-called ‘Asian tigers’), which all successfully switched from import substitution to export-led growth. Their economic success in the 1970s and 1980s confounded the predictions of the developmentalist school and contributed to the decline of import substitution strategies around the world.

Activity

Contrast liberal, mercantilist and neo-Marxist explanations of underdevelopment. What is the relative importance of international and domestic factors in each of these explanations?

The Washington Consensus and beyond

Faltering economic growth in the South and a worsening debt crisis in the aftermath of two oil crises in the 1970s led many developing countries to abandon their developmentalist strategies and turn towards economic liberalisation. By the 1980s, a new consensus was emerging on the need for governments to retreat from direct interference in the economy and to set business and markets free. In the developed world, the conservative governments under Ronald Reagan (USA) and Margaret Thatcher (UK) led the way towards decidedly neo-liberal economic policies. At the international level, the World Bank and the IMF (both based in the US capital Washington, DC) used their leverage as large lenders to developing countries to push for the adoption of what came to be known as the ‘Washington Consensus’.

The Washington Consensus consisted of a number of principles and specific policy prescriptions that shifted the balance between states and markets in favour of the latter. To achieve long-term economic growth, developing countries were advised to prioritise macroeconomic stability, privatise state-owned firms and allow the forces of competition to work in the domestic economy, bring down barriers to trade and investment by foreign firms and stimulate private enterprise. International donor agencies used loan agreements to demand structural reforms from recipient countries in the developing world. Because these ‘structural adjustment’ programmes tended to prioritise economic reform over social welfare objectives, they frequently provoked protests in developing countries as governments were forced to cut social spending and reduce subsidies of basic foods and other essential goods.

Criticism of the Washington Consensus became more widespread in the 1990s, and even officials at the World Bank and the IMF now admit that a simple move towards freer markets may not produce the desired outcomes in all cases. The criticisms concerned a number of problems with the anti-statist drive towards market liberalisation. For example, economists such as Dani Rodrik have questioned the empirical evidence that links greater trade openness with higher levels of economic growth. There is no guarantee that opening up trade will directly benefit the economy
as such. In fact, the East Asian ‘tiger economies' continued to exercise a high degree of protectionism while promoting certain export industries of their own, all under the tutelage of the state. Moreover, the move towards greater market liberalisation has put the already weak social welfare systems in developing countries under increasing stress, contributing to increases in poverty during the reform process. By concentrating on macroeconomic restructuring and ignoring the need for social and political stability during the reform processes, the IMF and the World Bank may have helped to undermine the very policies they have promoted in the South.

The developmental debate today

Intense debate continues today about the right policy mix to achieve economic development. The Washington Consensus may no longer reign supreme, but a post-Washington Consensus has failed to emerge. Some point to China's extraordinary success in achieving year-on-year economic growth rates of around 10 percent and lifting hundreds of millions of people out of poverty, based on an autocratic political system with a strong governmental role in guiding investment and trade. Others highlight India's more recent success in stimulating sustained economic growth, which seems to go hand in hand with the country's long-standing democratic tradition and a much weaker state than that of China.

In a recent effort to shed light on the diverse conditions for a successful economic strategy in poorer societies, the World Bank convened a Commission on Growth and Development. Its 2008 report, 'The growth report: strategies for sustained growth and inclusive development' provides a summary of current developmental thinking. Most importantly, it argues that there is no generic formula for achieving sustained growth and development. Each country has its own specific characteristics and historical experiences that play into its economic strategy. The report highlights four categories of countries that face particular challenges: African countries, which suffer from unhelpful borders and poor transport infrastructure; small states, with little scope to diversify their domestic economy; countries rich in natural resources, who fail to turn their natural riches into societal progress; and middle-income countries, which often struggle to maintain the growth momentum and identify areas of international competitiveness.

Despite there being no magic formula for economic success, the Growth Report nevertheless highlights key insights and policy ingredients that governments can use as part of their growth strategy. According to past experience, successful growth stories have included all or some of the following ingredients:

- high rates of investment, public and private, in infrastructure, education and health;
- absorption of technology and knowledge from the rest of the world;
- competition policies that help, not hinder, structural change as the economy grows;
- increased labour mobility; export promotion; and macroeconomic stability, among others.

Activity

The Growth Commission report can be found at www.growthcommission.org. Summarise its main policy recommendations. How convincing do you find them?
The World Bank and international aid

The World Bank plays a central role in all these debates on the best way forward in fighting poverty. As the largest multilateral lender to developing countries, it is in a powerful position to guide these countries in their developmental strategy. The World Bank was founded in 1944 as part of the new international economic order of the post-Second World War era. Its task was initially to help with the reconstruction of the countries affected by the war. With the onset of decolonisation, however, the World Bank began to focus more on helping poorer countries in the South fight poverty and promote economic development. By the 1970s, when the decolonisation process was nearing its completion, the World Bank had become the leading international organisation in the field of development assistance. Its role is to provide developmental aid and long-term lending, support private sector investment and help developing countries with poverty alleviation strategies. With 187 member states, over 10,000 members of staff in more than 100 offices worldwide and a budget of $58.8 billion for loans in the 2009 fiscal year, the World Bank is a key player in the field of economic development.

As the largest contributors to the World Bank, the United States, Japan and Europe also possess ultimate control over the use of its funds. Unlike the United Nations General Assembly and other UN organisations, which apply a ‘one country, one vote’ system, the Bank’s weighted voting structure gives the rich donor countries a majority of votes. This has led to concerns in the past that the World Bank (and by the same token the IMF) essentially imposes a Northern economic agenda on developing countries. This criticism also applies to the bilateral aid programmes that the major industrialised countries provide. In its extreme form, this view considers all development assistance as a symbol and instrument of Northern dominance, even as a form of neo-imperialism. More moderate versions criticise specific policies promoted through international aid, and especially the conditionality of aid, as failing to help poorer countries overcome their state of dependence.

But to suggest that donor countries should give financial aid without any consideration for how it is used by recipients would ignore the reality of foreign aid:

• First, parliaments, and ultimately the voters, in donor countries need to approve aid budgets and are likely to ask for some degree of accountability.

• Second, governments routinely use foreign aid as an instrument of foreign policy, to further their interests and to influence other governments. In that sense, developmental assistance has to be seen as being driven by both moral concerns and a diplomatic rationale.

• Third, the growing interest in promoting democracy and good governance around the world has led virtually all donor countries and organisations to stipulate that recipients of aid programmes must adhere to some form of political conditionality. The rise of the good governance agenda suggests a wider effort by donors to eradicate corruption and governmental malpractice. From the perspective of recipient countries, however, it is often seen as yet another example of the dependency relationship that developmental aid creates.
Activity
Is economic aid policy driven, at least in part, by moral concerns? If so, how can we tell?

A reminder of your learning outcomes
Having completed this chapter, and the Essential readings and activities, you should be able to:
• explain the problem of poverty and inequality in the developing world
• explain the contrasting views on the role of the state in economic development, and assess the strategies propounded by these different schools of thought
• critically assess the contribution that the Washington Consensus has made to developmental efforts in the South
• discuss the limits of the World Bank's contribution to economic development
• outline the pros and cons of international aid.

Sample examination questions
1. ‘International aid creates dependency and cannot lift developing countries out of poverty.’ Discuss.
2. Account for the rise and fall of import-substitution strategies in the developing world.
3. ‘States are part of the problem and part of the solution in economic development.’ Discuss.
Chapter 8: Multinational corporations

Aims

The aim of this chapter is to consider the role that multinational corporations play in international political economy, and to assess the ability of nation states and the international community to regulate the behaviour of global firms.

Learning outcomes

By the end of the chapter, and having completed the Essential readings and activities, you should be able to:

• describe the bargaining relationship between states and firms over questions of foreign investment, and explain how MNCs can exert influence on states' behaviour
• discuss the degree to which states retain the power and authority to regulate the activities of MNCs
• discuss the pros and cons of self-regulation and corporate social responsibility
• describe the difficulties in reaching a consensus on the Multilateral Agreement on Investment (MAI).

Essential reading


Recommended reading

* strongly recommended

Further reading


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**Websites**

Forest Stewardship Council: www.fsc.org

FTSE4Good Index Series: www.ftse.com/ftse4good/

Global Reporting Initiative: www.globalreporting.org/

ILO Declaration on MNEs: www.ilo.org/public/english/employment/multi/

MAI-related resources: www.globalpolicy.org/socecon/bwi-wto/indexmai.htm

OECD: www.oecd.org


UK government gateway to CSR issues: www.societyandbusiness.gov.uk/

UN Global Compact: http://unglobalcompact.org

UNCTAD’s programme on foreign direct investment: www.unctad.org

World Business Council on Sustainable Development: www.wbcsd.org

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**Introduction**

One of the most potent symbols of economic globalisation is the multinational corporation (MNC). Huge corporate empires now straddle the world and rival some states in terms of economic significance and...
power. MNCs exist in virtually all industrial sectors and dominate the global production and trade of oil, minerals and foods. They are the main driving force behind technological innovation, shifts in employment and the integration of the world economy. Increasingly, MNCs’ economic strength is also felt in the realm of international politics, where large firms have emerged as political actors alongside states and civil society groups. Some scholars such as Susan Strange go as far as to argue that we have witnessed a large-scale power shift away from states towards global firms, and that authority in the international realm now increasingly rests with the private sector. Others, however, question the ability of MNCs to challenge state power and point to corporate dependence on the supportive political and legal framework that states provide. But before we discuss the political implications of the rise of global firms, we need to gain a better understanding of the nature of global production and foreign direct investment in today’s global economy.

Multinational production and foreign investment in a global economy

Economic globalisation in the twentieth century brought with it not only an expansion of international trade but also the integration of production across national boundaries. Many consumer products, such as cars and computers, are now routinely manufactured using input factors from several locations around the world. Likewise, such manufacturing is now often carried out under the umbrella of a large multinational corporation, with subsidiary operations in many different countries, and servicing a multitude of markets around the world.

Multinational corporations (MNCs) are firms that own subsidiaries in at least one other country. They expand abroad through a process of foreign direct investment (FDI). FDI takes place where an MNC buys either a share in a foreign business or acquires an entire company abroad with the aim of gaining partial or complete control over that business. Whereas so-called portfolio investments are aimed at making a short-term financial return, foreign direct investment is part of a wider, and more long-term, strategy to expand business operations into other markets.

Foreign direct investment has grown phenomenally over the last twenty years. FDI inflows amounted to $59 billion in 1982, $209 billion in 1990, $560 billion in 2003 and $1,114 billion in 2009. Their annual growth rate in the late 1980s was c.23 per cent and nearly 40 per cent in the late 1990s. Although FDI flows have fluctuated and even declined in more recent years, the year 2010 saw signs of a recovery of international investment activities. Irrespective of cyclical variations in the level of FDI activity, the record of the last thirty years points to a dramatic increase in the level of economic globalisation in the corporate sector.

Activity

Compare different regional patterns in foreign direct investment as recorded by UNCTAD’s annual statistical review. Which regions are major exporters of FDI flows, and which are major recipients? The 2010 report can be found at: www.unctad.org/en/docs/wir2010_embargo22_en.pdf

The rise of the global firm

In a famous article, ‘Who Is Us?’ published in 1990, Robert Reich questioned the political fixation with national ownership of productive
facilities and argued that global firms had disconnected themselves from their national context. The growth of international investment and production has indeed created a situation in which many MNCs have outgrown their national market and are now operating in a global market context. But just how ‘global’ these firms are remains a contested issue among researchers and policy-makers. For example, companies such as the oil giant Shell or the drinks manufacturer Coca-Cola are operating in nearly all countries of the world. Their production and sales strategies take a global view, and their home markets often provide a diminishing share of their global sales volume. At the same time, however, MNCs continue to have close links with their home countries. They value the support they get from their governments, particularly when it comes to defending their investments abroad. And they continue to maintain close links with the home economy, which provides sources of finance and hosts important research and development activities. Very few, if any, large firms are truly global in the sense of being footloose.

The rise of the multinational firm is a distinctively twentieth-century phenomenon, and continues unabated in the twenty-first century. To be sure, the history of global firms goes back much further. In the era of colonialism, merchant companies such as England’s East India Company maintained trading posts and even armies in a number of countries, mixing global trade with military occupation to sustain their global business. But while colonial trading companies were interested primarily in the extraction of natural resources and agricultural products, today’s MNCs engage in the full range of economic activities across national boundaries. Companies such as Microsoft, Nestlé and Toyota pursue global strategies in manufacturing, services and retailing.

Activity

At this point, read Hirst and Thompson (2009), Chapter 3 on the globalisation of production.

An estimated 82,000 MNCs operate today with over 800,000 foreign affiliates between them. These figures include the world’s largest companies, such as BP and DaimlerChrysler, but also small and medium-sized enterprises operating in only a limited number of countries. Their economic importance has grown significantly in the era of globalisation. MNCs account for around four-fifths of the world’s industrial output. They dominate international trade and play a critical role in promoting technological innovation and providing channels for technology transfer and diffusion. For many developing countries, foreign investment is the only way to tap into the innovative potential of the global economy. But even developed economies tend to promote foreign direct investment by multinationals, as a source of both technological innovation and employment.

Although the current global economic climate favours a free flow of foreign investment, the activities of multinationals continue to cause concern, and indeed moral outrage, around the world. Where global firms seek to exploit cheap labour and lack of worker protection, and pay little regard for human rights and environmental protection, they are routinely confronted by the transnational campaigns of trade unions, human rights groups and environmental organisations. The massive size and economic power of MNCs invariably invokes suspicion and fear, particularly in developing countries. The growth of international production has thus given rise to a renewed debate over the power balance between global firms on the one hand, and states and local communities on the other.
Chapter 8: Multinational corporations

Activity
List the reasons why some countries may question the economic benefits of foreign direct investment.

Power shift? State–firms relations in flux

Many see global firms as the new ‘sovereigns’ in international politics (i.e. as rivals to states and their claim to national sovereignty). As multinational firms weave an increasingly dense web of production across boundaries, inexorably linking different economies together, the state’s control over the national economy is coming under threat. Some see this as a positive development: in the neo-liberal vision of Kenichi Ohmae, global firms are the agents of a new global economy, bringing greater efficiency and productivity, and ultimately prosperity, to the world. States and state intervention in the economy are seen by neo-liberals as a mere hindrance to greater economic welfare. Others, especially those critical of global capitalism, fear that the growing power of global firms is undermining the authority of democratically elected governments and threatening social welfare systems around the world. Writers such as Noreena Hertz argue that a ‘silent takeover’ is taking place, with corporate leaders effectively in control of society’s future.

Activity
Critically assess Noreena Hertz’s argument in her 2001 book that the world faces a ‘silent takeover’ by the corporate sector (see Chapters 4 and 5 in particular).

While these two perspectives fundamentally disagree on the desirability of the rise of global firms, they nevertheless agree on one thing: that a power shift is occurring in international political economy, away from nation states and towards multinational firms. Both advocates and radical critics of global capitalism see the states system as inevitably losing out to the corporate sector. But is this really the case? To speak of a power shift implies that we can compare the power of states with the power of global firms. Can this be done? To answer these questions, we need to look more closely at the way in which global firms exercise influence and power in international political economy.

Much recent research on the state–firm relationship has focused on the bargaining between these two types of actors over foreign investment. Because multinationals hold the promise of access to technology and job creation, they are usually in a strong bargaining position when it comes to choosing the right location for their international investments. As Stopford, Strange and Henley (1991) point out, states may find themselves in competition when seeking to attract foreign investment. Offering preferential conditions such as tax havens and reduced regulatory burdens is but one way for states to attract business investment, with a ‘regulatory race to the bottom’ as the result. In this perspective, states have had to retreat from their previously dominant position in the economy in order to provide multinational businesses with a favourable climate for investment.

But the state–firm bargain works in more than one way, and not always in favour of firms. Once a multinational has invested in a country and its ‘exit’ costs have risen, the host government’s bargaining position will improve and it can begin to extract greater concessions from foreign firms. Moreover, MNCs do not simply seek low labour and regulatory costs when they move abroad. In fact, the majority of foreign direct investment flows is occurring among the most developed countries of North America,
Europe and East Asia. Here, multinationals invest in markets where consumer demand is high, skilled labour is abundant and the regulatory environment is stable.

Global firms have become more powerful in the sense that their key contribution to economic growth and prosperity is now generally accepted around the world. Governments reject foreign investment at their own peril. With the economic opening of the former socialist economies and many developing countries, MNCs now have unprecedented access to global markets. At the same time, not all governments are at the mercy of internationally mobile capital. This may be the case for some of the poorest developing countries, which are failing to attract sufficient foreign investment. A different picture emerges, however, for countries such as the United States, Britain and Japan. These rich countries attract foreign firms while maintaining considerable control over them.

Activity

To what extent can we compare the economic size and strength of multinationals with the economic and political power of nation states?

Can you think of examples of MNC–government bargaining that illustrate the arguments in favour of, and against, a ‘power shift’ from states to firms?

Governing global firms: national and international rules

Global firms may not have eroded the sovereign power of nation states, but with increasing globalisation the question arises as to whether there is a sufficient international system of governance for multinational firms. The short answer is ‘no’. Compared to the global governance of international trade and finance, the international institutions and regimes dealing with global firms and investment are weak and fragmented. There is no equivalent to the World Trade Organization or the IMF in the world of transnational investment.

Investment issues and conflicts continue to be dealt with on the basis of national, bilateral and regional agreements. The United States, for example, has long provided protection for its multinational companies through an extensive network of bilateral and regional investment treaties. As a consequence, the existing rules on investment differ greatly across the world. Corporate leaders frequently complain about the lack of a global level playing field, but governments, including those in the developing world, are reluctant to surrender their sovereign rights in this area to an international body. Efforts to establish an international investment regime have therefore been fruitless.

Among the many attempts to regulate the activities of global firms are:

• the UN Code of Conduct on Transnational Corporations (TNCs), which was developed in the 1970s

• the International Labour Organization’s (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (1977)

• the OECD Declaration on Multinational Enterprises and appended Guidelines (1976)

• the Agreement on Trade-Related Investment Measures (TRIMS) under the World Trade Organization

• the OECD’s Multilateral Agreement on Investment (MAI), negotiated but eventually abandoned in the 1990s.
While the international community never adopted the UN Code, the ILO and OECD declarations remain non-binding documents, which are voluntary and non-enforceable. The TRIMS agreement is now enforceable with the help of the WTO dispute settlement mechanism, but was never designed nor expected to be a fully-fledged investment regime. Of all the efforts to regulate MNCs, the MAI was the most far-reaching international treaty. The failure of the MAI negotiations in 1998 (see below), however, dealt a serious blow to the drive towards a global investment regime.

In the absence of state-sponsored international regulation of firms, new initiatives have sprung up at the global level that seek to establish so-called ‘private regimes’ (i.e. voluntary agreements and standards created by firms and/or civil society groups). In the business world, the concept of corporate social responsibility (CSR) has rapidly gained ground as more and more multinationals are subscribing to their own, or industry-wide, sets of norms and principles of responsibility to the communities within which they operate. This can have far-reaching consequences for global business operations, as is the case in certification schemes. Such transnationally established schemes provide independent verification of, for example, environmentally sustainable business behaviour, as is the case with the Forest Stewardship Council (FSC). The FSC is a body set up by the forest industry and environmental organisations, and certifies those companies that produce or trade only in sustainable timber and timber products. The UN has recently acknowledged the importance of such private initiatives by setting up its own forum for developing voluntary standards and promoting best practice among MNCs, in the form of the Global Compact.

**Activity**

Research the UN Global Compact’s website (www.unglobalcompact.org) to find out more about the nature of the Global Compact, its approach to matters of corporate responsibility and its voluntary basis for regulating multinational corporations’ behaviour.

Critics of CSR approaches point out that as long as these initiatives remain voluntary, they will not have a lasting impact on the behaviour of global firms. What is needed, therefore, is a global regulatory framework that imposes a duty of social and environmental responsibility and establishes principles of transparency and accountability. At best, they argue, CSR schemes are a mere public relations exercise for companies whose reputation has been damaged in the past. At worst, they serve to prevent states from taking action and undermine democratic principles of public governance.

**Case study: the Multilateral Agreement on Investment**

In the mid-1990s, the member states of the Organization for Economic Cooperation and Development (OECD), a kind of ‘rich countries’ club’, embarked on the ambitious project of creating an international treaty on global investment rules. The so-called Multilateral Agreement on Investment (MAI) was meant to harmonise existing rules set by different states and create a level playing field for the major industries. In the end, the effort failed, and leading industrialised countries have sought to strengthen bilateral and regional investment-related agreements instead. The collapse of the MAI negotiations means, however, that there is no overarching international treaty to govern the investment-related behaviour of firms and states.
On the one hand, the MAI was intended to set in stone the principles of economic liberalisation in the field of investment and guarantee global firms free access to all participating countries. For this reason, the global business community was strongly in favour of this treaty. On the other hand, the negotiations on the MAI led to the insertion of an increasing number of exceptions that governments were demanding if they were to agree to the accord. As a consequence, the final draft text looked more like a document that confirmed the status quo and reaffirmed existing rights of governments to interfere with foreign investment. Business support for the MAI was therefore declining rapidly, and disagreements between the key negotiating parties led to a collapse of the talks in late 1998.

Although the negotiations failed primarily because of disagreements among the OECD member states, organised protests by demonstrators outside the OECD’s headquarters in Paris ensured that the issue of foreign investment protection became a hotly debated issue in civil society circles. The growing opposition to the MAI by human rights groups, environmental organisations and trade unions eventually became the starting point for a wider anti-globalisation campaign that was to lead to highly public confrontations at the 1999 Seattle WTO ministerial conference and other gatherings of world leaders.

Activity

List the key factors behind the failure of the MAI negotiations. How important were civil society protests in ending the MAI effort?

A reminder of your learning outcomes

Having completed this chapter, and the Essential readings and activities, you should be able to:

- describe the bargaining relationship between states and firms over questions of foreign investment, and explain how MNCs can exert influence on states’ behaviour
- discuss the degree to which states retain the power and authority to regulate the activities of MNCs
- discuss the pros and cons of self-regulation and corporate social responsibility
- describe the difficulties in reaching a consensus on the Multilateral Agreement on Investment (MAI).

Sample examination questions

1. Do you agree with the view that there has been a power shift from states to firms in the era of globalisation?
2. Why have initiatives to establish a comprehensive global regime on investment failed?
3. ‘The global firm is a new sovereign entity in the international system.’ Discuss.
4. Can self-regulation by MNCs ever be an adequate substitute for state-sponsored international regulation?
Chapter 9: Environmental protection

Aims

The aim of this chapter is to consider the environmental challenges the international political economy faces and the response of the international community to global ecological threats.

Learning outcomes

By the end of the chapter, and having completed the Essential readings and activities, you should be able to:

• discuss the UN’s role in international environmental protection
• describe the major differences between the main forms of environmental thought
• explain the North–South conflict in the global politics of the environment
• discuss the economic interests affected by global environmental policies
• describe the difficulties in reaching international agreement on climate change action.

Essential reading


Recommended reading


* strongly recommended

Further reading


Websites


United Nations Environment Programme: www.unep.org

Convention on Biological Diversity: www.biodiv.org

UN Framework Convention on Climate Change: http://unfccc.int

International Institute for Sustainable Development: www.iisd.org

Energy, Environment and Development Programme, Chatham House: www.chathamhouse.org.uk/research/eedp/

Introduction

Ever since the industrial revolution swept across Europe and beyond, economic growth and technological innovation have provoked fierce controversy. In the eighteenth and nineteenth centuries, the introduction of machines in manufacturing and railways in transport was greeted at times with violent opposition by those who feared that these new technologies would undermine existing patterns of life and work. Since the twentieth century, critics of economic growth and technology have been more concerned with the ecological consequences of the industrial system. The rapid depletion of natural resources and the growing pollution of water, air and the atmosphere have led to the emergence of a global environmental movement. Today, the ecological constraints of the global economy present one of the most profound challenges that societies around the world face.

The international community took up this challenge somewhat belatedly. Although the first half of the twentieth century saw the adoption of some of the first international treaties on, for example, the protection of seals in the North Pacific (1911) and wildlife in the Western Hemisphere (1940), a more systematic effort to protect the global environment dates back only to the 1970s. At that time, the United Nations began to host regular international conferences to address the various ecological problems that threaten life on this planet. Today, environmental protection features prominently on the international agenda as one of the key challenges for international collective action.
Some progress has been made over the last 40 years: over 200 multilateral environmental treaties (MEAs) have been signed, and an array of international, regional and national institutions are now in place to promote environmental protection. Global markets for clean energy and emission reductions have emerged, and environmental sustainability has become a guiding principle for global politics and business. But serious doubts persist about the effectiveness of these developments. Most international treaties lack teeth, and many have not been sufficiently implemented to make a difference. Many pressing environmental threats, from species extinction to climate change, are still awaiting an effective response from the international states system.

Differing perspectives on environmentalism

Far from being a coherent ideology, environmental thought consists of a diverse range of intellectual strands. Early green thinking was concerned primarily with protecting wildlife and the long-term management of natural resources, such as forests. In the second half of the twentieth century, the threats of the industrial system and the global dimensions of environmental pollution came to the fore. Industrial accidents, such as those at a chemical plant in Bhopal (India) in 1984 and at a nuclear power plant in Chernobyl (Ukraine) in 1986, came to symbolise the inherent risks of modern industry and technological progress. While some environmentalists seek solutions for making the global economy compatible with environmental needs, others go as far as calling for a radical restructuring of the economic system to avert a global ecological crisis. It is thus possible broadly to distinguish between reformists and radicals in environmental thought. Yet others reject these two strands of environmentalism and put forward an altogether more sceptical perspective on the ecological question.

Activity

Read Chapter 1 of Andrew Dobson (2007) for an overview of environmental thought.

Reformists believe that it is possible to achieve a higher level of environmental protection within the existing international political economy. They advocate the creation of national and international institutions to promote environmental objectives; dialogue and cooperation between government, business and civil society in the search for environmental solutions; and a gradualist approach to reforming existing institutional arrangements that fail to serve the needs of sustainability. Reformists can thus be found in support of environmental diplomacy, for example in the form of UN environmental summits and MEA negotiations. The concept of sustainable development (see below) is seen by reformists as a model for combining diverse interests in a common effort to promote global objectives.

In contrast, radicals speak of a profound ecological crisis that is rooted in the very foundations of the global capitalist system. In their view, which is often referred to as a ‘deep ecology’ perspective, reforms can merely slow down, but not avert, global ecological destruction. What is needed is a root-and-branch restructuring of our consumerist society and capitalist economy, to put the survival of the Earth’s ecosystems before the imperative of economic growth. Radicals such as writers associated with the magazine the Ecologist take an ecocentric perspective that acknowledges nature’s intrinsic value (see the Ecologist, 1993). Existing attempts to negotiate international environmental accords are, at best,
a futile attempt to address isolated cases of environmental degradation, and, at worst, a means of deflecting attention from the root causes of the ecological crisis.

The radical vision resonates with many environmental activists who tire of the piecemeal progress states have made in addressing environmental problems. But its prescription of profound social and economic change reveals radical ecology’s utopian, and at times even anti-democratic, character. Radical ecologists have a particular problem explaining how they would seek to fulfil the aspirations of the poorer nations who have not yet benefited from industrialisation. The spread of post-consumerist values in the rich countries of the North may have given rise to a growing environmentalist movement, but has been met with some hostility among developing countries who see environmental policies as a ‘neo-colonial’ conspiracy to prevent them from catching up in economic development.

Anti-environmentalist sentiment exists in many different forms. Some question the scientific evidence underpinning predictions about imminent environmental doom, while others point to the fundamental trade-off that exists in choosing between investing resources in environmental protection and promoting economic development. Many industry groups used both types of arguments to question the need for further environmental regulation at national and international level. Bjørn Lomborg has sparked a lively international debate on what he sees as an alarmist and misguided rush into action against global warming. He challenges the scientific opinion behind the push for the international climate change regime and argues that society would do better by adapting to any future climate change and promoting technological change. In his book The skeptical environmentalist, Lomborg challenges the pessimistic predictions of environmentalists on a number of fronts, from climate change to species loss and air pollution, suggesting that in fact environmental quality is improving, or at least not deteriorating, in many of these areas. Lomborg’s own work, however, has been criticised by others for using statistical data in a one-sided fashion to support his argument.

Activity

Formulate your own critical assessment of these three perspectives on environmentalism. What, if anything, do the traditional approaches to international political economy (liberalism, mercantilism, structuralism) have to say about the global ecological crisis and international responses to environmental problems?

Early history of international environmental politics

The first UN environment conference took place in Stockholm in 1972. The UN Conference on the Human Environment (UNCHE) produced the Stockholm Declaration, a catalogue of environmental principles that are intended to guide states in their efforts to protect the environment. The declaration reflects a compromise between the interests of states in preserving their sovereign control over their natural resources, on the one hand, and the need for environmental cooperation across boundaries, on the other. Still, for the first time, the international community acknowledged countries’ responsibilities for environmental damage beyond their borders.

The other major achievement of the Stockholm conference was the establishment of the UN Environment Programme (UNEP). As the first UN body primarily dealing with global ecological problems, UNEP became the focal point for developing a raft of international initiatives and treaties.
It was held back in its efforts, however, by its comparatively small budget and the fact that it was established merely as a programme, and not as a fully-fledged UN special agency. As a concession to developing countries the UNEP's headquarters were established in Nairobi (Kenya).

The 1970s saw the creation of major international environmental treaties, including treaties on:

- trade in endangered species (CITES, 1972)
- prevention of maritime pollution (London Dumping Convention 1972, MARPOL 1973)
- long-range transboundary air pollution (Geneva Convention, 1979).

A growing number of countries, initially mainly in the developed North, were now undertaking domestic efforts to establish environmental policies and institutions. Slowly but steadily, environmental issues made their way onto the domestic agenda of ever more countries as well as the international agenda.

By the 1980s, the international community had fully acknowledged that ecological issues were of a global nature and required a global response. Nothing symbolised the global ecological threat quite like the depletion of the ozone layer, a thin protective layer of gases in the stratosphere that is shielding the Earth from damaging ultra-violet radiation. In 1974 Mario Molina and Sherwood Rowland, two scientists at the University of California, Irvine, first alerted policy-makers to the possibility that man-made gases used in refrigeration, air conditioning and aerosol sprays might be the cause of ozone layer thinning. It took more than a decade of intense scientific research and international diplomacy for the international community to agree on the Vienna Convention in 1985, the first effort to deal with the threat of ozone-depleting chemicals. The 1987 Montreal Protocol to the Vienna Convention and subsequent treaty revisions eventually led to a global phase-out of these chemicals. The Montreal Protocol was initially opposed by the chemical industry, but once an international agreement had been reached, leading chemical producers led the way towards the complete elimination of the major ozone-depleting substances. Developing countries were given an extended phase-out schedule for these chemicals to ease the economic pain of transition and received financial aid to pay for the conversion costs. The Montreal Protocol stands out as one of the lasting achievements of UN-sponsored international environmental diplomacy.

Activity

What makes environmental problems ‘global’? Are all environmental problems of a global nature?

What can be learned from the experience with the Montreal Protocol on ozone layer protection for other international environmental negotiations?

From the 1992 Rio ‘Earth Summit’ to the 2002 Johannesburg Summit and beyond

Emboldened by such success, the UN convened in 1992 the UN Conference on Environment and Development (UNCED) in Rio de Janeiro under the chairmanship of Maurice Strong. The then largest international gathering of 172 countries, which became known as the Rio ‘Earth Summit’, was in many ways the high water mark in international environmental politics. Twenty years after Stockholm, UNCED reiterated in the Rio Declaration
the need for a new and equitable global partnership. The 800-page Agenda 21 set out an ambitious work programme for implementing the Declaration's principles. And three new agreements – on climate change, biodiversity and forests – extended the reach of international environmental governance. Turning the Rio agreements into reality, however, proved far more difficult, and the post-Rio international debate has been characterised by much greater modesty in ambition and a stronger focus on the gaps in implementation.

Of the Rio agreements, the Convention on Biological Diversity and the UN Framework Convention on Climate Change were the most controversial. Both were opposed by the United States, the most outspoken critic among industrialised countries of the drive towards ever stricter environmental rules, even though the US ratified the climate convention. The biodiversity treaty serves as an all-encompassing instrument for protecting ecological habitats and systems, the ambition of which was never matched with practical steps and programmes. The climate treaty was followed by the Kyoto Protocol in 1997, which set goals for reducing greenhouse gas emissions by at least five per cent. The US refused to accede to the treaty and remains sceptical of legally binding targets for reducing greenhouse gas emissions. Developing countries, who under the Kyoto Protocol are not obliged to reduce their emissions, are fearful of future restraints on their economic development efforts. Their future role in climate change politics is bound to increase, however, as countries such as China and India are among the world's fastest growing emitters of greenhouse gases.

The conflict between environment and development was once again at the centre of UN environmental diplomacy when the World Summit on Sustainable Development (WSSD) convened in 2002 in Johannesburg. Ten years after Rio, the 'Johannesburg Summit' struck a much more sombre note and recognised that past environmental agreements had not been followed up by decisive action. The summit agenda focused on areas that reflect both environmental and developmental concerns, such as biodiversity, renewable energy, water and sanitation. Instead of pushing for new international agreements, it sought to concentrate state leaders' minds on how to implement existing MEAs. The next international environmental summit is planned for 2012, twenty years after Rio, when world leaders will revisit environmental commitments from the past and decide on new efforts to promote environmental sustainability.

Activity

Examine the results of the 2002 WSSD at [www.johannesburgsummit.org](http://www.johannesburgsummit.org).

The concept of sustainable development

The economy and the environment have traditionally been seen as diametrically opposed to each other. Green activists point to the devastating effects of continued economic growth and resource extraction on the earth's ecosystems, while advocates of industrial growth and free trade stress the need for an expansion of material production to serve the interests of consumers, particularly in the poorest nations. It should come as no surprise that developing countries have been particularly hostile to environmentalists' demands for a slowdown in, and even halt to, economic growth.

To overcome this economy–ecology divide and to reflect the concerns of poorer nations in environmental politics properly, the concept of ‘sustainable development’ was proposed in the 1980s as a new way of
thinking about global policy imperatives. In a landmark report published in 1987, the World Commission on Environment and Development, also known as the Brundtland Commission, named after its chair Gro Brundtland, produced one of the most influential definitions of this new concept. The report *Our common future* defined sustainable development as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'.

**Activity**

At this point, you should read Chapter 2 of *Our common future*, the World Commission on Environment and Development (1987), which provides one of the most widely used definitions of the concept of sustainable development.

Critics of the concept point out that it is at best a meaningless phrase and at worst a contradiction in terms. As with many other political slogans, sustainable development has taken on many forms and meanings, and has been claimed by a diverse group of organisations, ranging from environmental campaign groups to multinational corporations. Reflecting their ulterior motives, these groups either stress the importance of ecological sustainability or the need to provide for continued economic growth. While most people can agree with the broad objective of sustainable development, reaching a consensus on what the concept means in practice has proved an elusive task.

**Activity**

What do you understand by the term 'sustainable development'?

Why is the usefulness of the term disputed?

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**The challenge of climate change**

The problem of climate change is a good example of the many conflicts inherent in international environmental politics. Scientific uncertainty, economic costs, political conflicts and North–South tensions make climate change one of the most difficult issues on the global environmental agenda. At the heart of the problem is the 'greenhouse effect', a naturally occurring phenomenon that is exacerbated by the emission of man-made gases such as carbon dioxide, methane and nitrous oxide. These so-called greenhouse gases originate in processes of mainly fossil fuel-based energy production and agriculture. Their accumulation in the atmosphere over the last two centuries – a process that has accelerated considerably in the last 50 years – is regarded by scientists as having led to the gradual warming of the Earth's atmosphere, causing long-term and potentially damaging effects on eco-systems around the world. A rise in the sealevel, worsening of extreme weather patterns and greater desertification are but some of the ecological effects global warming is expected to cause in the future.

The international community has found it difficult to agree on an appropriate response to the threat of climate change. The 1997 Kyoto Protocol, which came into force in 2005, merely seeks to stabilise industrialised countries' greenhouse gas emissions into the atmosphere in the medium term and runs out in 2012 unless a successor treaty is agreed. Key states such as the USA, the world's biggest emitter of carbon dioxide in historical terms, has refused to ratify the accord, and the emerging economies with fast rising emissions (e.g. China, India) are not covered by its mandatory emission reductions. Powerful business interests, such as the...
oil and coal industries, have lobbied against the Kyoto Protocol, and many other companies fear a competitive disadvantage in situations where their government takes costly climate change action but others do not follow suit.

Efforts to negotiate a successor agreement to the Kyoto Protocol culminated in the 2009 climate conference in Copenhagen, which was attended by over 100 heads of government. The conference adopted a non-binding Copenhagen Accord, in which governments commit to stabilising future temperature rises caused by global warming to 2 degrees Celsius. However, the meeting failed to agree legally binding commitments to reduce emissions.

Climate change politics raises key questions that are characteristic of global environmental politics in general:

• Is the scientific evidence on man-made global warming sufficiently strong to justify early and costly action? Or should societies adopt a ‘wait and see’ approach?

• What would be an equitable distribution of emission reduction efforts between developed and developing countries? As emerging economies contribute an ever larger amount of greenhouse gases, should they also be obliged to reduce emissions, or at least reduce the emissions intensity of economic growth?

• Given the difficulties of reaching international agreement on a comprehensive and legally binding climate deal, what can be done at the global level to mitigate climate change?

Activity

Find out about your country’s national strategy for combating the greenhouse effect by looking up governmental websites. How effective, in your view, has this strategy been?

Activities

Why is it that so many international environmental treaties remain ineffective?

Why are some developing countries sceptical of the global environmental agenda? Is their scepticism justified?

Think of examples where environmental activist groups have made a difference in world politics. How powerful, in your view, are environmental groups?

A reminder of your learning outcomes

Having completed this chapter, and the Essential readings and activities, you should be able to:

• discuss the UN’s role in international environmental protection

• describe the major differences between the main forms of environmental thought

• explain the North–South conflict in the global politics of the environment

• discuss the economic interests affected by global environmental policies

• describe the difficulties in reaching international agreement on climate change action.
Sample examination questions

1. Does the global ecological crisis call for a radical restructuring of the global political and economic system?

2. Why has the international community found it so difficult to make progress on combating the ‘greenhouse effect’?

3. Does the UN make a significant contribution to solving global environmental problems?

4. Is ‘sustainable development’ a contradiction in terms?
Chapter 10: Regionalism in a global economy

Aims

The aim of this chapter is to consider the process of regionalisation in the international political economy and to explore the reasons behind the rise of regionalism.

Learning outcomes

By the end of the chapter, and having completed the Essential readings and activities, you should be able to:

• describe and discuss the different forms and manifestations of regional identity and organisation in international political economy

• explain the relationship between regionalism and the move towards global governance

• contrast different experiences with regional integration, in Europe, Asia and Latin America

• discuss the relationship between regional trade agreements and the multilateral order of the GATT/WTO.

Essential reading


Recommended reading


* strongly recommended

Further reading


Globalisation is widely held to be the dominant trend in the international political economy at the beginning of the twenty-first century. It manifests itself in growing trade links and production chains across boundaries, convergence of consumer preferences and values, and political integration and cooperation. But alongside the trend towards global harmonisation exist moves towards regional integration and institution-building. The European Union is the most successful example of a regional community of states that has achieved a high level of economic and political integration. Other regional organisations exist in other continents, too. In one sense, both globalisation and regionalisation transcend the nation state as the key organising entity in the international political economy. But in another sense, regionalisation runs counter to globalisation, promoting cooperative institutions and structures that are based not on global but on regional identities.

The concepts of regionalisation and regionalism are often used interchangeably, but we need to define them more precisely if we are to make sense of the vast range of regional trends and institutions that exist
today. Regionalisation denotes a process of social, political and economic integration within a region. This process is to a large extent unintended, often driven by autonomous economic processes, and creates deeper communities and identities across boundaries but below the global level. It stands in contrast to the deeper concept of regionalism, which refers to a more deliberate process of creating an integrated form of cooperation within a region. Regional integration may take place in the realms of society, culture, politics or the economy. In fact, economic regionalism is one of the key driving forces behind the recent resurgence of regionalist projects, with regional free trade areas being developed in all continents.

A complicating factor in achieving definitional clarity is that the concept of the region is in itself ambiguous. Boundaries between regions are difficult to establish, and different types of regional ‘identity’ – geographical proximity, culture, language, religion – yield different delineations. Turkey is a case in point. Geographically, most of Turkey belongs to the Asian continent. The country’s predominant religion is Islam, which some argue sets it apart from the predominantly Christian identity of Europe. But neither of these two factors is a sufficient reason to exclude the possibility that Turkey will integrate more closely with Europe in the near future, politically as well as culturally. Religion alone cannot be the defining factor; no one doubts that Bosnia-Herzegovina, another predominantly Islamic country, is firmly within the European realm. Moreover, as a long-standing member of NATO, the North Atlantic defence organisation, Turkey has a long history of integration with the European security community. The European Union has now formally acknowledged the possibility that the accession talks with Turkey could lead to the country’s admission to the EU. But the argument about whether Turkey truly is a European country continues unabated. The example of Turkey suggests that regional identities are not set in stone and can change over time. They are the product of large-scale political, economic and cultural change, and are open to challenge. In a sense, therefore, regional identity is created, or ‘socially constructed’, as sociologists would put it. In other words, there are no ‘natural’ boundaries to regions.

Activity
Consider the boundaries of the commonly referred-to regions or sub-regions of Asia, Southeast Asia and East Asia/Pacific; compare these with the membership of Asian regional organisations such as ASEAN or APEC.

Explaining regionalism

How can we explain the recent move towards greater regionalism in the international political economy? The processes at work in different parts of the world all share certain characteristics, but also reflect different, region-specific, factors. Developing a general theory of regionalism is therefore bound to be a frustrating, perhaps futile, effort. It helps, however, to identify certain general features that lie behind the surge of regional integration.

Liberal economists explain the growth of economic regionalism, like any form of international integration, as an attempt to overcome market failures and to provide a more lasting basis for international cooperation to support the expansion of markets. This rationale is clearly at work in the many regional trade agreements that have been created in the last 20 years, such as the EU and NAFTA. What is missing from this explanation is an account of the political motives behind regional institutions such as those of the European Union.
Mercantilists provide a rather less benign view of economic regionalism. In their perspective, the building of regional trading blocs reflects a concern with relative gains and losses and a need to achieve a competitive advantage for domestic industries. In explaining European economic regionalism, mercantilists point to the fear of US and Japanese competition that informed efforts in the 1980s to establish a single market for Europe. Economic regionalism is thus embedded in a wider strategy of economic competition and serves as a bargaining chip in multilateral negotiations on trade and investment.

Activity

Read Andrew Hurrell (1995) on other International Relations theories and Robert Gilpin (2001), Chapter 13, on other economic theories of regionalism.

The European Union

The European integration process is widely considered to be the most successful example of regional integration. Whether it holds lessons for other regions is a matter for debate. Important historical circumstances have shaped European integration: the experience of two devastating world wars sparked the desire to bring the countries of Europe closer together to prevent future conflict; and the emergence of a bipolar world with the USA and the Soviet Union as the predominant powers accelerated the decline of the old European order and promoted the emergence of a pan-European perspective. With the destruction caused by the Second World War, integration in Europe also became a matter of practical importance in the effort to rebuild industries and communities.

The European Union started out in the 1950s with a limited effort to create supranational authorities in the field of economic cooperation. The European Coal and Steel Community (ECSC) of 1952 was followed in 1957 with the more comprehensive Treaties of Rome that gave birth to the European Economic Community (EEC). The EEC created a customs union and facilitated greater economic integration between its original six member states (France, Germany, Italy, Netherlands, Belgium and Luxembourg), which were joined later by other European countries. Economic integration was followed by political integration, and with political integration came the gradual transfer of political authority to the common institutions of the EEC. However, member states were not simply ceding sovereignty to a new European super-state. The Single European Act of 1985 and the Treaty on European Union of 1992 further integrated policy areas from environment to monetary policy, but the member states continued to protect their sovereign rights in important areas such as foreign policy and defence.

The success of European integration has led to a constant increase in the number of member states. The six founding members of the EEC were joined by Britain, Denmark and Ireland in 1973, Greece in 1981, Spain and Portugal in 1986, and Sweden, Finland and Austria in 1995. After the end of the Cold War, the EU took in 10 countries in 2004, including many former members of the Soviet bloc: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. Bulgaria and Romania joined in 2007. The expanding membership of the EU, however, has put the community under increasing strain. Decision-making in a 27-member organisation can be cumbersome and ineffective, and the new East European members will need a long period of economic change and assistance to reach West European levels of development and
prosperity. Some fear that the drive towards enlarging the EU is putting the goal of ever-greater integration under threat. Indeed, there is no fixed end point in the regional integration that the EU is headed towards.

Activity
At this point, for a discussion of the process of European integration read Best and Christiansen (2011) and Gilpin (2000), Chapter 7.

Regionalism in the Americas and Asia
Efforts to build regional groupings in Latin America go back to the 1950s, when the UN Economic Commission for Latin America began to promote greater cooperation in the region. Latin American regionalism was inspired by the need to promote economic development, but was also informed by a desire to counter the dominant influence of the region’s undisputed hegemon, the United States. From the 1960s onwards, several regional economic blocs emerged that provided a framework for economic cooperation. The Central American Common Market (CACM), the Caribbean Common Market (CARICOM) and the Andean Group all sought to create an economic union at the sub-regional level. Their success in promoting economic integration was mixed, however. Political integration played only a marginal role in these early sub-regional schemes, and none of them came to encompass the entire region.

In the 1990s, a new grouping of Southern American economies came into existence that also included a more overtly political dimension. The MERCOSUR (‘Common Market of the South’) includes Brazil, Argentina, Paraguay and Uruguay, with Chile being closely associated. MERCOSUR is seen by some as a potential model for greater economic integration in the entire Latin American region. A key question remains, however, as to whether the United States should become a member of any such all-encompassing regional organisation. Because of its economic size and political dominance, the USA could not be an equal partner and this would raise concerns about the economic and political marginalisation of smaller countries. The only pan-American organisation in existence today is the Organization of American States (OAS), which focuses on political and security issues. There is no equivalent economic body for the Americas, although recent attempts by the United States to create a Free Trade Area of the Americas (FTAA) would result in an embryonic scheme for pan-American economic union.

US efforts to create stronger economic and political ties between North and South America go back to the 1940s and 1950s and produced only limited results. These efforts received a boost in the 1990s from the creation of a trilateral trade agreement between the USA, Canada and Mexico. The North American Free Trade Agreement (NAFTA) of 1993 proved to be one of the most successful models of sub-regional integration, helping to lower tariff barriers and promoting cross-country investment between the three member states. To some extent, the US switch to bilateral trade agreements since the 1980s has revived interest in a wider regional framework among Latin American countries fearing that they might be left out of such selective trade blocs.
Discuss the role of the United States in promoting, and hindering, regional integration of the Americas. Can regional integration ever succeed given the asymmetrical power balance between the United States and the Latin American countries?

The Asian continent has also seen the rise of a number of sub-regional economic organisations. In South East Asia, the Association of South East Asian Nations (ASEAN) took on a more overtly economic dimension in the 1990s with the 1992 agreement to establish a free trade area among its members. But ASEAN's impact on economic regionalism has been limited. Unlike the European Union, ASEAN did not manage to achieve a substantial increase in intra-ASEAN trade. Instead, most member states continue to trade predominantly with non-ASEAN countries. More recently, the development of Asia-Pacific Economic Cooperation (APEC) provides a framework for economic cooperation that includes the United States, Japan, Australia and New Zealand and seeks to tie the continents bordering on the Pacific together. As in the early phase of ASEAN, APEC's main function has been to provide a forum for regional dialogue, while moves towards a deeper model of integration à la Europe remain elusive. The Asian region continues to be characterised by significant differences in economic development, thriving nationalist sentiment and a precarious security situation – all factors that have so far held back Asian regionalism.

For a discussion of Asian regionalism read Ravenhill (2009).

Regional trade agreements and the WTO: conflict or compatibility?

Whether globalisation and regionalisation are compatible trends or not has become one of the most hotly debated issues in international economic circles. Over the last half century, the creation of an internationally integrated economy has gone hand in hand with economic regionalisation, causing little friction between the two trends. But some observers have expressed the fear that regional economic unions and preferential trade areas may reduce the move towards a truly globalised economy and potentially threaten the ongoing multilateral process of agreeing rules on trade and investment. They see economic regionalism as a threat to multilateralism and an open international economy and fear a return of the ‘economic fortress’ mentality that characterised the economic climate of the interwar years. Advocates of regionalism argue that regional units should be seen as building blocks of a multilateral economic order, and in some cases as models for economic integration that go even beyond the levels achieved in multilateral settings.

The perceived conflict between globalisation and regionalisation has been most pronounced in the area of trade. The 1990s saw a dramatic increase in the number of bilateral and regional trade agreements (RTAs) being signed, partly in response to the faltering multilateral approach after the successful conclusion of the GATT's Uruguay Round in the mid-1980s. The major trading powers, especially the United States and the EU, increasingly resorted to bilateral trade diplomacy, raising concerns about their commitment to the multilateral process of the WTO. But there is still little systematic evidence to suggest that the proliferation of regional trade agreements is slowing down the overall process of trade liberalisation. Proponents of RTAs argue that regional agreements in fact provide impetus
for multilateral negotiations, by driving trade liberalisation deeper and wider and thus setting standards for multilateral agreements.

**Activities**

Critics of the process of European integration have argued that it would eventually lead to the creation of a ‘Fortress Europe’ and would erect new trade barriers against non-European countries. Is this true?

What do the WTO agreements say about regional trade agreements (RTAs)? Is there a fundamental conflict between participation in the WTO and in RTAs?

**A reminder of your learning outcomes**

Having completed this chapter, and the Essential readings and activities, you should be able to:

- describe and discuss the different forms and manifestations of regional identity and organisation in international political economy
- explain the relationship between regionalism and the move towards global governance
- contrast different experiences with regional integration, in Europe, Asia and Latin America
- discuss the relationship between regional trade agreements and the multilateral order of the GATT/WTO.

**Sample examination questions**

1. Are regional trade agreements a stumbling block or stepping-stone for multilateral trade agreements?
2. What explains the recent rise in regionalism across the world?
3. Why has Europe seen a higher level of regional organisation than both Asia and Latin America?
Chapter 11: Conclusion: the political economy of international relations

Introduction

This final chapter reviews some of the main themes and issues discussed in this subject guide. Rather than introducing new theoretical perspectives or substantive material, it provides a summary assessment of the increasingly close relationship between economics and politics in international relations and of the changing nature of the international political economy. It seeks to answer the following questions:

• Is it possible to draw a clear dividing line between economics and politics in the international arena in the early twenty-first century?
• Has globalisation weakened the influence and importance of states in international political economy?
• Have other actors, particularly global firms and civil society groups, gained in importance in shaping outcomes in international economic relations?

Economics and politics in international relations

The days when the study of international relations would concern itself primarily, and even exclusively, with political matters are long gone. There is now a broad consensus among scholars and practitioners of international politics that economics and politics are intimately linked. This political-economic nexus exists, of course, in domestic politics, too. One of Bill Clinton’s advisors once famously captured the central importance of economic issues in electoral politics when exclaiming: ‘It’s the economy, stupid’. Economic growth and improvements in the economic situation of their citizens are now central concerns to governments around the world. The waves of democratisation in the twentieth century have in many ways increased the importance of economics in policy-making. They have opened up the domestic and foreign policy-making process to outside interests, giving corporations, consumers and civil society groups greater access to policy-makers. The spread of democracy has entrenched the need to address the basic needs and aspirations of voters in the political process. And with a growing level of international economic interdependence, foreign economic policy is now firmly wedded to the pursuit of domestic economic policy goals.

However, despite a broad agreement about the close connection between economics and politics, it is still possible to identify different conceptualisations of that link. The three main traditions in the study of international economic relations all provide distinctive perspectives on how to think about the political economy of international relations.

The mercantilist tradition has always maintained that politics and economics are inexorably intertwined. But more than any other tradition, mercantilists throughout the last four centuries have argued for the primacy of politics over economics and the need to see the economy as being embedded in, and to some extent dependent on, a supportive political environment. This point still provides some contrast with the other two traditions, liberalism and Marxism, both of which tend to view the economy as the primary sphere of human activity. When debating
globalisation, contemporary neo-mercantilists or neo-realists, such as Kenneth Waltz and Robert Gilpin, stress the central role played by states in providing a supportive framework for global integration, with some insisting that without US hegemony, globalisation would not exist in the form that we know it.

One of the starting points in the liberal tradition is the assumption that the spheres of politics and economics are separate, or at least should be thought of as separate. Classical liberals saw an ‘invisible hand’ at work in the economy that ordered the relations of individuals and ensured that the pursuit of self-interest resulted in the common good. The realm of politics was viewed with great suspicion by theorists such as Adam Smith. Interference by the state could disturb the natural pattern of harmonious market interaction and reduce the efficiency of the market mechanism. Echoes of this perspective can still be heard in contemporary debates on globalisation, with liberals such as Kenichi Ohmae welcoming the end of the nation state in favour of new global and regional economic entities.

The Marxist tradition provides yet another variation on the economics–politics nexus, basing much of its theorising on materialist theory that attributes to the economic realm a causal role for what goes on in the political world. Whereas Marx maintained a strict materialist perspective, arguing that politics and culture were a mere superstructure built on, and derived from, the economic basis of society, contemporary neo-Marxists have come to acknowledge a greater, partially autonomous, role for political forces including the state, as can be seen in the work of Immanuel Wallerstein and Robert Cox. But the dominance of the economic world is presumed to persist nevertheless. In debates on globalisation, neo-Marxists insist that to understand this process, we need to focus first and foremost on global capitalism as the underlying structure that gives shape and direction to the process of global integration.

Clearly, the concept of globalisation is as much a matter for debate as are the consequences of global economic, social and political integration. In that we are all involved in the process, be it as agents or analysts, or simply as those affected by it, we all have different, at times irreconcilable, perspectives on what we mean by globalisation. It is important to remember that the social sciences can provide us with the theoretical and conceptual tools to seek a better understanding and more convincing explanations of international phenomena and patterns of behaviour. But this search will always be characterised by competing paradigms and contrasting viewpoints, reflecting the fact that values and facts are difficult to separate in an intellectual enterprise that reflects on the world as we are remaking it. Thus, a certain degree of pluralism in our theoretical and methodological approaches is called for when we engage with such questions.

**The state and non-state actors in an era of globalisation**

Irrespective of the ongoing theoretical debates between the three main perspectives outlined above, we can conclude that the economic factor has assumed a position that can no longer be ignored in the study of international relations. International political economy as an academic discipline is well placed to deal with the complex linkages between economics and politics, but debate within the discipline continues on how best to conceptualise them. Central to this debate are the contrasting views on the implications of globalisation for the role of the state. As discussed in this subject guide, liberals, mercantilists and Marxists differ on how globalisation impacts on the state’s role in guiding the domestic economy.
and conducting foreign economic policy. This is not the place to re-engage with this debate, but merely to suggest some final observations on it:

First, confusion about the concept of the state has led to considerable misunderstanding in the debate on globalisation. We need to distinguish between two concepts of the state: the ‘institutional’ state, which is a provider of public services and engages in domestic economic life; and the ‘territorial’ state, which represents the people in international affairs, enters into treaties and forms alliances with other states. When students of economic globalisation speak of the declining role and power of the state, they usually have in mind the former, rather than the latter, concept of the state. To see growing international interdependence as a constraining factor on the institutional state does not therefore necessarily mean that the state in its territorial dimension is also in decline. In fact, the state in its territorial dimension is alive and well and is assuming ever greater roles in the context of international governance. Not only has there been a resurgence of nationalism in international society after the end of the Cold War; there has also been a proliferation of inter-state links, institutional arrangements and treaties alongside a growing web of transnational links in the global economy and society.

Second, notwithstanding the continuing role of the nation state, globalisation has provided the space for new actors to emerge, not only in the world of transnational economic and social relations, but also in international politics. International organisations, multinational corporations, social movements and religious groups now routinely involve themselves in international processes of negotiation, institution-building and governance. In a sense, globalisation has created an expanded political sphere at the global level that is occupied by a myriad of non-state actors and has reduced the centrality, though not eliminated the importance, of the state as both an international actor and as a gatekeeper between the international and domestic realms. The expansion of the global economy and of transnational societal links, together with the blurring of the international-domestic divide, have all contributed to this transformation of international relations.

To repeat: This is not to suggest that states have become irrelevant or powerless, as some enthusiastic supporters of globalisation might suggest. Indeed, the way in which states respond to globalisation and the challenges and opportunities of a global economy may indeed determine the degree to which societies can benefit from global integration. States that promote the beneficial aspects of global economic integration and shield domestic society from the economic dislocations that this brings with it will see their own position and legitimacy enhanced. State capacity, therefore, is a crucial asset in the ongoing struggle to shape and benefit from the process of globalisation.
Important note: This Sample examination paper reflects the examination and assessment arrangements for this course in the academic year 2010–2011. The format and structure of the examination may have changed since the publication of this subject guide. You can find the most recent examination papers on the VLE where all changes to the format of the examination are posted.

Time allowed: 3 hours

Candidates should answer **FOUR** of the following **TWELVE** questions. All questions carry equal marks.

1. How has the end of the Cold War made the distinction between 'high politics' and 'low politics' meaningless?
2. Assess the contribution made by dependency theorists to explaining global inequality.
3. ‘Free trade services the interests primarily of economically strong nations.’ Discuss.
4. Why was economic nationalism so popular with many of the developing countries that emerged from decolonisation after the Second World War?
5. Did the Bretton Woods international monetary system fail because it was intrinsically flawed?
6. Are liberals right in believing that international cooperation is in the self-interest of states?
7. To what extent can the GATT/WTO be described as a ‘free trade’ system?
8. What explains the relative success of European regional integration after the Second World War?
9. Does the concept of sustainable development provide a solution to the often conflicting objectives of environmental protection and economic development?
10. Assess the claim that global firms have become more powerful than states in the international political economy.
11. ‘Globalisation is a political project and not an inevitable process.’ Discuss.
12. To what extent is the Washington Consensus on economic development still alive in today’s world?
Advice on answering examination questions

Below is a brief account of how you should answer Question 2 from the above Sample examination paper. Please remember that there is usually more than one way of answering a question. The following is a suggestion of how candidates might approach this question and what aspects ought to be covered to achieve a good result.

Question: Assess the contribution made by dependency theorists to explaining global inequality.

Advice for answering this question:
You should first outline dependency theories as they were formulated from the late 1950s onwards, emphasising their core assumptions with regard to core–periphery relations; capitalism as a force of underdevelopment and dependency; and the role of multinational corporations in extracting surplus value from the periphery. The second step should involve an assessment of the contribution made by dependency theories to explaining global inequality. In doing so, you should examine the merits of dependency explanations as well as their shortcomings. As dependency theorists emphasise global structures as the root causes of inequality, it is important to contrast structural explanations with accounts that concentrate on domestic sources of underdevelopment and inequality. An outstanding answer would contrast dependency approaches with the explanations provided by liberal and mercantilist theorists of international political economy.
Appendix 2: Full reading and resource list

Essential reading

Books


Articles


Recommended reading

Books

The books marked * are particularly recommended for Chapters 9 and 10.

Richardson, Neil R. ‘International Trade as a Force for Peace’ in Charles W. Kegley Jr. (ed.) Controversies in international relations theory: realism and


Journals


Viner, Jacob ‘Power vs. Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries’, World Politics 1 1948 pp.1–29.


Further reading


Chang, Ha-Joon Kicking away the ladder: economic development in historical perspective. (London: Anthem Press, 2002) [ISBN 1843310279].


Cohen, Benjamin J. ‘The International Monetary System: Diffusion and Ambiguity’, International Affairs 84(3) 2008, pp.455–70.


Collier, Paul The bottom billion: why the poorest countries are failing and what can be done about it. (Oxford: Oxford University Press, 2008) [ISBN 0195374630].


Landes, David S. *The wealth and poverty of nations: why some are so poor and some so rich*. (New York: W.W. Norton, 1999) [ISBN 039331885X].


Websites

African Union: www.africa-union.org/
APEC: www.apecsec.org.sg/apec.html
ASEAN: www.aseansec.org/home.htm
Bank for International Settlements: www.bis.org
Chatham House, Energy, Environment and Development Programme: www.chathamhouse.org.uk/research/eedp/
Convention on Biological Diversity: www.biodiv.org
European Union: http://europa.eu.int/
Federation of International Trade Associations: www.fita.org/
Financial Stability Forum: www.fsforum.org/home/home.html
Forest Stewardship Council: www.fsc.org
FTAA: www.ftaa-alca.org/alca_e.asp
FTSE4Good Index Series: www.ftse.com/ftse4good/
Global Reporting Initiative: www.globalreporting.org/
ILO Declaration on MNEs: www.ilo.org/public/english/employment/multi/
IMF: www.imf.org
International Institute for Sustainable Development: www.iisd.org
International Trade Centre: www.intracen.org/
Jubilee Research: www.jubilee2000uk.org/
MAI-related resources:
www.globalpolicy.org/socecon/bwi-wto/indexmai.htm
MERCOSUR: www.mercosur.org.uy/
NAFTA: www.nafta-sec-alena.org/DefaultSite/index_e.aspx
OECD: www.oecd.org
Polity's Global Transformations website: www.polity.co.uk/global/
Sustainable Development Programme, Chatham House: www.riia.org/sustainabledevelopment
The Bretton Woods Project: www.brettonwoodsproject.org
The Human Development Reports: http://hdr.undp.org/
The World Bank: www.worldbank.org
Third World Network: www.twnside.org.sg/trade.htm
UK government gateway to CSR issues: www.societyandbusiness.gov.uk/
UN Framework Convention on Climate Change: http://unfccc.int
UN Global Compact: http://unglobalcompact.org
UNCTAD: www.unctad.org
UNCTAD's programme on foreign direct investment: www.unctad.org
UNDP: www.undp.org
United Nations Environment Programme: www.unep.org
World Business Council on Sustainable Development: www.wbcsd.org
World Summit on Sustainable Development (2002):
www.johannesburgsummit.org
WTO Watch: www.tradeobservatory.org/
WTO: www.wto.org/