International Political Economy in an Age of Globalization

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READER'S GUIDE

This chapter examines what drives actors and explains events in the international economy. The first section outlines the history of the post-war economy. The history helps to explain why and how international political economy (IPE) has become so central to the study of international relations (section two). Amidst the many actors, processes and events in the recent history of the world economy, it is not obvious where one might begin to analyse IPE. This task is made easier by three traditional approaches to IPE which outline for us specific actors, processes and levels of analysis. These are the liberal, mercantilist and marxist traditions which are outlined in section three. More recently, IPE has become divided by an argument about the uses (and abuses) of `rational choice' analysis. What `rational choice' means and the argument about how it should be used are both explored in section four. These perspectives and tools for studying IPE are then applied to help us to make sense of globalization and its impact on the world economy. Section five defines globalization and examines two core questions it poses for IPE. Is globalization diminishing the role of states in the world economy? What explains the very different kinds of impact globalization has on different kinds of states? Globalization poses new challenges for all states (and other actors) in the world economy. It is often assumed that international institutions and organizations will manage these challenges. In the final section of the chapter we return to the theories of IPE in order to answer the question: what role can we expect institutions to play in managing globalization?

Introduction

International political economy (IPE) is about the interplay of economics and politics in world affairs. The core question of IPE is: what drives and explains events in the world economy? For some people this comes down to a battle of `states versus markets'. However, this is misleading. The `markets' of the world economy are not like local street bazaars in which all items can be openly and competitively traded and exchanged. Equally, politicians cannot rule the global economy much as they might like to. World markets and countries, local firms, and multinational corporations which trade and invest within them are all shaped by layers of rules, norms, laws, organizations, and even habits. Political scientists like to call all these features of the system `institutions'. International political economy tries to explain what creates and

perpetuates institutions and what impact institutions have on the world economy.

The post-war world economy

The institutions and framework of the world economy have their roots in the planning for a new economic order which took place during the last phase of the second world war. In 1944, policy-makers gathered at Bretton Woods in the United States to consider how to resolve two very serious problems. First, they needed to ensure that the Great Depression of the 1930s would not happen again. In other words, they had to find ways to ensure a stable global monetary system and an open world trading system (see box 1). Second, they needed to rebuild the war-torn economies of Europe.

Box 1: Planning the post-war economy and avoiding another Great Depression

The Great Depression had been greatly exacerbated, if not caused, by `beggar thy neighbour' economic policies. In the late 1920s and 1930s, governments all over the world tried to protect themselves from economic crisis by putting up trade barriers and devaluing their currencies. Each country believed that by doing this they would somehow manage to keep their economy afloat while all around them neighbouring economies sank. The Great Depression demonstrated that this did not work. At the end of the war, the challenge was to create a system which would prevent this, in particular by ensuring:

- a stable exchange rate system
- a reserve asset or unit of account (such as the gold standard)
- international capital flows could be controlled
- the availability of short-term loans to countries facing a temporary balance of payments crisis
- rules to keep economies open to trade

At Bretton Woods three institutions were planned in order to promote a new world economic order (see boxes 2 & 4). The International Monetary Fund was created to ensure a stable exchange rate regime and the provision of emergency assistance to countries facing a temporary crisis in their balance of payments regime. The International Bank for Reconstruction and Development (IBRD and later called the World Bank) was created to facilitate private investment and reconstruction in Europe. The Bank was also charged with assisting `development' in other countries, a mandate which later became the main reason for its existence. Finally, the General Agreement on Trade and Tariffs (GATT) was signed in 1947 and became a forum for negotiations on trade liberalization.

Box 2: The Bretton Woods Institutions: the IMF and World Bank

Both the IMF and the World Bank were established in 1946 after wartime negotiations held at Bretton Woods in the United States with headquarters (opposite one another) in Washington DC. **The IMF** was created to promote international monetary cooperation and resolve the interwar economic problems (see box 2), although several of these functions ended when the Bretton Woods system broke down in 1971 (see box 4). The IMF now has a membership of 183 countries each of whom contributes a quota of resources to the organization (proportionate to the size of their economy) which also determines their percentage of voting rights and the amount of resources to which they can have automatic access. Since the 1980s, the IMF has become an institution offering financial and technical assistance to developing and transition economies. The terms on which countries receive assistance include the government having to commit to undertake specific `conditions' or policy reforms, called `conditionality'.(See www.imf.org). What we now call **the World Bank** started out as the International Bank for Reconstruction and Development (IBRD), an agency to foster reconstruction in war-torn Europe as well as development in the rest of the world. It has since become the world's largest source of development assistance, providing nearly $16 billion in loans annually to eligible member countries, through the IBRD, the International Development Association (IDA), the International Finance Corporation (IFC) and the Multilateral Guarantee Agency (MIGA). As with the IMF, the World Bank requires members to whom it lends money to undertake specific reforms within their economy. Most recently this has included requiring borrowing governments to demonstrate their commitment to reducing poverty within their countries. With the exception of IDA (which is funded by donations), the World Bank's resources come from its issue of bonds in the capital markets. These bonds are backed up by guarantees provided by the governments who belong to the institution. (See www.worldbank.org)

The 1944 plans for the world economy, however, were soon postponed when in 1945 the United States made its first priority the containment of the Soviet Union. Fearing the rise of communism in war-ravaged Europe, the United States took a far more direct role than planned in reconstructing Europe and managing the world economy. The US announced the Marshall Plan in 1947 which directed massive financial aid to Europe and permitted the US to set conditions on it. The planned gold standard was replaced by the dollar standard which the US managed directly, backing the dollar with gold. Unsurprisingly, by the time the IMF, the World Bank, and the GATT began to function in the 1950s, they were distinctly Western bloc organizations which depended heavily on the United States.

US support for the Bretton Woods system began to change when weaknesses emerged in the US economy. After 1965 the US widened its costly military involvement in Vietnam, and also started to spend more money on public education and urban redevelopment programmes in the United States (President Johnson's 'Great Society' programmes), and all this without raising taxes. The damage was dramatic. As prices rose within the US economy, the competitiveness of US goods and services in the world economy dropped. Likewise, confidence in the US dollar plummeted. Firms and countries turned away from the dollar and the US capacity to back its currency with gold was brought into question. Meanwhile, other countries in the world economy were enhancing their position. European allies were benefiting from the growing and deepening economic integration in Europe. By the late 1960s, the development of the EEC provided a springboard for European policy-makers to diverge from US positions, such as over NATO military exercises and support for the gold standard. In Asia, the phenomenal success of export-led growth in Japan and in newly industrializing countries such as South Korea and Taiwan created a new challenge to US trade competitiveness, and a new agenda for trade negotiations.

Facing these pressures, the United States changed the rules of the international monetary system in 1971. The government announced that it would no longer convert dollars to gold at $35 per ounce, and that it was imposing a 10% surcharge on import duties (to improve trade balance by curtailing imports which were flooding into the US, and to try to stem the outflow of dollars to the rest of the world). These actions broke the Bretton Woods system. This was not the only change in the world economy in the 1970s.

Box 3: The `Bretton Woods system' and its breakdown

What was the `Bretton Woods system'? At the Bretton Woods Conference in 1944 it was agreed that all countries currencies would be fixed at a certain value. They became fixed to the dollar, and the US government promised to convert all dollars to gold at $35 per ounce. In other words, exchange rates were anchored to a dollar-gold standard. In the Bretton Woods system, any country wanting to change the value of its currency had to apply to the IMF for permission. The result was very stable and unchanging exchange rates.

What was the `breakdown' of the system? In August 1971, the US government announced that it was suspending the convertibility of the dollar to gold at $35 per ounce. This removed gold from the dollar-gold standard and paved the way for major currencies to `float' instead of staying at fixed values. The US also announced in August 1971 that it was adding a 10% surcharge on import duties (to improve trade balance by curtailing imports which were flooding into the US, and to try to stem the outflow of dollars to the rest of the world), hence also turning back the Bretton Woods ideal of maintaining open trade in times of economic difficulty.

Was this a sign of declining US hegemony? Over a decade after the breakdown of the Bretton Woods system, leading academics debated whether the change reflected a loss in US power, or was indeed an exercise of its power. For some, the breakdown of the system was an exercise of US leadership: `the US hegemon smashed the BW system in order to increase its own freedom of economic and political action'(Gowa, 1983). Others argued that the US had lost its capacity to maintain the system, but explained that a regime could nevertheless survive without the hegemon (Keohane, 1984). At the heart of the debate was a disagreement about whether cooperation in the international political economy depends upon one state being both capable and willing to set and enforce the rules of the game, with powers to abrogate and adjust those same rules. This debate about the nature of cooperation continues today in competing explanations of international institutions (see last section of this chapter).

In the 1970s, the period of high growth enjoyed after the second world war came to an abrupt end, leaving very high inflation. Further compounding the problem, the first oil crisis in 1973 plunged the world economy into `stagflation' (a combination of economic stagnation or low growth and high inflation). In the monetary system, the role of the IMF collapsed when the Bretton Woods system broke down in 1971 and the major industrialized countries failed to find a way to coordinate their exchange rate policies within the IMF framework. Instead, the major currencies floated and industrialized countries began to discuss monetary issues among themselves in groups such as the `Group of Seven' (comprising the United States, Japan, Germany, the United Kingdom, France, Italy, and Canada) which first met in 1975.

In the trading system, cooperation had steadily grown in negotiations under the auspices of GATT (see box 4). However, in the 1970s, the gains which had been made in reducing tariff barriers especially among

industrialized countries were reversed by policies of `new protectionism'. As each country grappled with stagflation, many introduced new forms of barriers (or `non-tariff barriers'), in particular to keep out the new competitive imports from successful developing countries. An egregious example of the new protectionism was the Multifiber Arrangement of 1973 which placed restrictions on all textile and apparel imports from developing countries, blatantly violating the GATT principle of non-discrimination.

Box 4: The post-war trading system, the GATT, and the WTO

The General Agreement on Trade and Tariffs (GATT) was an interim agreement signed in 1947 in the expectation that it would be superseded by an international trade organization. A permanent trade organization was not created until 1994, and so for four decades the interim GATT continued to exist as an arrangement among `contracting parties' backed up by a very small secretariat based in Geneva and a minuscule budget. In essence GATT was a forum for trade negotiations, with numerous rounds of talks culminating in the very successful Kennedy Round of 1962-1967 where breakthroughs were made in the reduction of trade barriers among industrialized countries. However, when protectionism flourished in the 1970s, the GATT proved powerless to restrain powerful members such as the United States and European countries from restricting trade (e.g. Multifiber Arrangement 1974 restricting textile imports) and abusing the many exceptions and safeguards written into the agreement. The GATT also functioned as a forum for dispute settlement (i.e. upholding trade rules), however, it was both slow and impotent in this regard, constrained by the need for consensus on any decision regarding disputes. The GATT was replaced by the World Trade Organization as a result of agreements forged in the last round of GATT talks, the Uruguay Round (1986-1994). Established on 1 January 1995, the WTO's functions include: administering WTO trade agreements; forum for trade negotiations; handling trade disputes; monitoring national trade policies; technical assistance and training for developing countries; cooperation with other international organizations. It is located in Geneva with a secretariat staff of 500. (See www.wto.org)

The new protectionism in industrialized countries further fuelled the anger of developing countries who in the 1970s launched a concerted campaign in the United Nations General Assembly for a `New International Economic Order' (NIEO). The determination of developing countries to alter the rules of the game was further bolstered by the success of OPEC oil-producing developing countries in raising oil prices in 1973. The agenda of the NIEO covered trade, aid, investment, the international monetary and financial system, and institutional reform. Developing countries sought better representation in international economic institutions, a fairer trading system, more aid, the regulation of foreign investment, the protection of economic sovereignty, and reforms to ensure a more stable and equitable financial and monetary system.

The NIEO campaign was unsuccessful for several reasons. The United Nations General Assembly (UNGA) was an obvious institution for developing countries to choose in making their case since, unlike the IMF or World Bank, it offers every country one vote. However the UNGA had no power to implement the agenda of the developing countries. Furthermore, although many industrialized countries were sympathetic to the developing countries' case in the 1970s, these governments did not act on the agenda in the 1970s and by the 1980s a new set of governments with a distinctly less sympathetic ideology had come to power in the United States, the United Kingdom, and Western Germany.

The 1980s opened with a shift in US economic policy. In 1979 the US Federal Reserve dramatically raised interest rates. This action was taken to stem inflation by contracting economic activity in the United States. However, the reverberations in the rest of the world economy were immediate and extensive.

During the 1960s and 1970s US and European policies had facilitated the rapid growth of global capital markets and financial flows. In the 1970s these flows were further buoyed by the investments of oil-producers who needed to find outlets for the vast profits made from the oil price rise of 1973. The money found its way to governments in developing countries who were offered loans at knock-down prices. The rise in interest rates in 1979 was an abrupt wake-up call to both borrowers and creditors (many of whom were US-based banks), who suddenly realized that many of the loans could not be repaid. The IMF was immediately called in to prevent any developing country defaulting on these loans, since it was feared that such a default would causes a global financial crisis.

The debt crisis meant that the IMF's role in the world economy became largely that of ensuring that indebted countries undertook `structural adjustment' in their economies. `Structural adjustment' meant immediate measures to reduce inflation, government expenditure, and the role of the government in the economy, including trade liberalization, privatization, and deregulation. These `neoliberal' policies were in marked contrast to the Keynesian analysis which had prevailed until the 1980s during the decades of growth in the world economy. Keynesians (named after economist John Maynard Keynes) believe that governments should play an active and interventionist role in the economy in order to ensure both growth and equity. By contrast, the new `neoliberalism' sought to roll back the state and the role of government, leaving decisions about allocation, production and distribution in the economy to the market. By the late 1980s the term `Washington consensus' was being used, sometimes pejoratively to imply that these policies were mainly a reflection of US interests.

By the end of the Cold War, the institutions created in 1944 still existed but their role in the world economy was very different to that which had been planned at Bretton Woods. The World Bank had become a development agency making loans to developing countries. The GATT had failed to stem the new protectionism of the 1970s and to meet the aspirations of developing countries, but trade negotiations undertaken in the 1980s (the final GATT round) created a new World Trade Organization (WTO) which could better enforce trade rules. The IMF had lost its role at the heart of the international monetary and financial system created at Bretton Woods but had gained a new role with the debt crisis of the 1980s. Meanwhile, the policy challenges associated with these changes, along with globalization and increasing interdependence meant that IPE became central to the study of international relations.

Key points:

- Immediately after the second world war international institutions were created to facilitate cooperation in the world economy and to ensure countries did not pursue the kinds of beggar-thy-neighbour policies which had contributed to the Great Depression.
- The onset of the cold war postponed the operation of these institutions, as the United States stepped in directly to manage the reconstruction of Europe and the international monetary system based on the dollar.
- The Bretton Woods system of managed exchange rates and capital flows operated until its breakdown in 1971 when the US announced it would no longer convert the dollar to gold.
- The 1970s were marked by a lack of international economic cooperation among the industrialized countries who floated their exchange rates and indulged in new forms of trade protectionism.
- Developing countries' dissatisfaction with the international system came to head in the 1970s when they pushed unsuccessfully for a new international economic order.
- The debt crisis in the 1980s thrust the IMF into a new role, causing its work to overlap with that of the World Bank.
- Trade negotiations in the 1980s produced a new world trade organization.

The rise of IPE in the study of international relations

Until the 1970s, IPE was a rather neglected subject. Although a lively debate about the causes of underdevelopment and inequality among nations was being undertaken by scholars in the Marxian tradition, this rarely permeated into the central concerns of mainstream international relations. Rather, as described in chapter four, the political and strategic challenges of the cold war consumed industrialized and developing countries alike, with the latter confronting decolonization and need to build post-colonial state structures.

By the early 1970s, international relations began to change as the events outlined above forced policy-makers and scholars alike to pay more attention to economic affairs. The power and predominance of the United States had been unquestioned in the Western alliance from the end of the second world war, until the Vietnam debacle and economic strain began to erode US hegemony in the late 1960s. Suddenly economic relations seemed to present obstacles and constraints to foreign and domestic policy alike.

In the academic study of international relations, the challenge posed by the growing economic interdependence of countries, in particular for the United States, was analysed in a seminal 1968 book by Richard Cooper who wrote of the need for greater coordination and cooperation among states in a world in which every nation's balance of payments was becoming vulnerable to a greater number of shocks and disturbances. This work was soon elaborated by Professor Cooper's Harvard colleagues Robert Keohane and Joseph Nye whose second study of economic interdependence and its implications for international relations became a core text in the subject (Keohane and Nye, 1977). These works all suggested that a new era of international relations was dawning. In particular, they proposed that international relations could no longer be conceived as a geo-strategic competition among states. Economic issues, new channels of communication, and new patterns of cooperation were all giving rise to a new world politics in which international political economy and international institutions would play a crucial role. The description aptly described the new diplomacy of detente emerging from the 1972 super-power summit.

Box 5: The rise of IPE in international relations

1965 US government expenditure increases as America's involvement in Vietnam widens and expenditure on the `Great Society' programmes at home commence.

1968 Cooper's *The Economics of Interdependence* is published

1969 Increasing multinational activity reflected by US multinational corporations producing approximately $140 billion worth of goods i.e. more than any single economy except the USA and USSR, and many of the largest were placing over half their total assets abroad, and earning more than half their total earnings overseas.

1971 President Nixon suspends the convertibility of the US$ into gold (which leads to the floating of major currencies in 1973)

1972 US-USSR Summit fuels hopes for new economic opportunities afforded by detente; President Nixon's visit to China;
European Economic Community further strengthened by accession of UK, Ireland and Denmark.

1973 OPEC's oil embargo increases price of energy and bolsters developing countries' aspirations to use commodity power.

1973-1979
Tokyo Round of GATT trade talks takes place as Japan and newly industrializing countries emerge as major competitors in world trade, sparking a new protectionism in industrialized countries.

1974 Developing countries push for a New International Economic Order in the General Assembly of the United Nations, including greater control over multinational corporations; and reform of global economic institutions.

1977 Keohane and Nye's *Power and Interdependence: World Politics in Transition* is published.

Another kind of summit diplomacy which also took place in the 1970s was that between `North' (the industrialized countries) and `South' (developing countries). These negotiations were underpinned by a different kind of thinking and scholarship about IPE. The developing countries' push for reform of the international economic system reflected dependency theory and structuralist theories of international economic relations which highlighted negative aspects of interdependence. In particular, these theorists were concerned to identify aspects of the international economy and institutions which impeded the possibilities of development in the South. Their central concern was to answer why so many countries within the world economy remained under-developed, in spite of the promises of modernization and global growth. The most sympathetic official `Northern' answer to these concerns was voiced in the Brandt Report 1980, the findings of a group of high-level policy-makers who had been asked to examine how and why the international community should respond to the challenges of interdependence and development.

Since the 1970s, international political economy has continued to advance as a core subject of international relations. As will be discussed below, globalization and its causes and effects on states and international cooperation and institutions has become a defining feature of international relations. Furthermore, the end of the cold war ended many of the geo-strategic aspirations and influence the West had enjoyed. The challenge of integrating the former Eastern bloc countries into the world system was soon defined primarily as one of economic transformation and integration. Equally, an explosion of tribal, religious and ethnic conflict on the edges of Europe (in the former Yugoslavia) as well as in Africa (such as in Rwanda), in Asia (such as in Indonesia), and in the Middle East forced analysts more closely to examine the links between poverty, economic stagnation, and the indebtedness of countries on the one hand, and intra-state conflict on the other. Finally, the end of the cold war thrust international institutions into the limelight. The United Nations, the IMF, the World Bank, and the newly created World Trade Organization all became an important focus of study and attention, providing further grist to the mill of IPE scholars concerned with examining the causes, determinants, and impact of international institutions and cooperation among states in economic affairs.

Key Points:

- The rise of IPE as a prominent subject in international relations was due in part to the decline in US economic preponderance and the challenge to traditional notions of power and security posed by the US failure in Vietnam.
- The rise in importance of IPE was also associated with new economic challenges in the 1970s, including the OPEC oil price rise and the developing countries' push for a NIEO which highlighted theories focussing on the nature and structure of the world economy.
- The economic challenges of both the end of the Cold War and globalization have further underlined the centrality of IPE in the study of international relations.

Traditional approaches to IPE: liberal, mercantilist and marxian

There are several competing explanations for the nature of the institutions and system described above. A slightly old-fashioned way to describe the competing approaches to IPE is to divide the subject into liberal, mercantilist, and marxist traditions. These labels still usefully describe different economic traditions each of which has a particular moral and analytical slant on global economic relations.

The liberal tradition

The liberal tradition is the `free market' one in which the role of voluntary exchange and markets are emphasized both as efficient and as morally desirable. The assumption is that free trade and the free movement of capital will ensure that investment flows to where it is most profitable to invest (hence, for example, flowing into under-developed areas where maximal gains might be made). Free trade is crucial for it permits countries to benefit from their comparative advantages. In other words, each country can exploit its own natural advantages, resources and endowments and gain from specialization. The economy is oiled by freely exchangeable currencies and open markets which create a global system of prices which, like an invisible hand, ensures an efficient and equitable distribution of goods and services across the world economy. Order in the global economy is a fairly minimal one. The optimal role of governments and institutions is to ensure the smooth and relatively unfettered operation of markets. It is assumed that governments face a wide range of choices in the world system and likewise vis-a-vis their own societies and populations. This means that governments who fail to pursue `good' economic policies do so because decision-makers are either too corrupt or too ignorant of the correct economic choices they might make.

The mercantilist tradition

The mercantilist tradition stands in stark contrast to the liberal one. Mercantilists share the presumptions of realists in international relations. They do not focus on individual policy-makers and their policy choices but rather assume that the world economy is an arena of competition among states seeking to maximize relative strength and power. Simply put, the international system is like a jungle in which each state has to do what it can to survive. For this reason, the aim of every state must be to maximise its wealth and independence. States will seek to do this by ensuring their self-sufficiency in key strategic industries and commodities, and by using trade protectionism (tariffs and other limits on exports and imports), subsidies and selective investments in the domestic economy. Obviously, within this system some states have more power and capability than others. The most powerful states define the rules and limits of the system: through hegemony, alliances, and balances of power. Indeed, stability and order will only be achieved where one state can play the role of hegemon, or in other words, is willing and able to create, maintain and enforce basic rules. Amidst this, the economic policies of any one government will always be subservient to its

quest to secure the external and internal sovereignty of the state.

The marxian tradition

The marxian tradition also sees the world economy as an arena of competition, but not among states. Capitalism is the driving force in the world economy. Using Marx's language, this means that world economic relations are best conceived as a class struggle between the `oppressor and the oppressed'. The oppressors or capitalists are those who own the `means of production' (trade and industry). The oppressed are the working class. The struggle between the two arises because capitalists seek to increase their profits and this requires them to exploit ever more harshly the working class. In international relations this description of `class relations' within a capitalist system has been applied to describe relations between the `core' (industrialized countries) and `periphery' (developing countries), and the unequal exchange which occurs between the two. Dependency theorists (who have focussed mainly on Latin America) describe the ways classes and groups in the `core' link to the `periphery'. Underdevelopment and poverty in so many countries is explained as the result of economic, social and political structures within countries which have been deeply influenced by their international economic relations. The global capitalist order within which these societies have emerged is, after all, a global capitalist order which reflects the interests of those who own the means of production.

Box 6: Traditional perspectives on IPE

	Depiction of world economy	**Core actors**	**Key driving forces**	**Conditions for order**
Liberal	potentially a seamless global marketplace	governments and economic actors	free trade and the free movement of capital (unless distortions are introduced by governments)	the invisible hand of competition (facilitated by government policies)
Mercantilist	arena of inter-state competition	states	maximising state wealth and independence vis-a-vis other states	balance of power or hegemony
Marxist	arena of capitalist competition	classes (capitalists and workers) and social groups	the search for profits, and the ensuing struggle between classes	submission of non-capitalists to the order

It becomes clear in contrasting these traditions of thinking about international economic relations that each focuses on different actors and driving forces in the world economy, and that each has a different conception of what `order' means and what is necessary to achieve it.

Comparing the different traditions also highlights three different levels of analysis: the structure of the international system (be that international capitalism or the configuration of power among states in the system) the nature of a particular government or competition within its institutions, and the role of interest groups and societal forces within a country. At each of these levels of analysis we need to ask: what drives

the actors concerned and therefore how might we explain their preferences, actions and the outcomes which result? In answering this question we enter into more methodological preoccupations which today divide the study of IPE.

Key Points:

- The labels liberal, mercantilist and marxian usefully describe three different analytical and moral starting points for the study of global economic relations.
- The liberal (or neo-liberal) perspective presents global economic order as the result of the relatively unfettered operation of markets, guided by rational individual policy-makers.
- Mercantilists describe the world economy as an arena for inter-state competition for power.
- Marxian analyses focus on the structure of the world capitalist economy, proposing that state and government choices simply reflect the preferences of those who own the means of production.
- The three traditional perspectives usefully highlight different actors, different processes, and different `levels of analysis' in the study of IPE.

New approaches to IPE

IPE is divided by the different normative concerns and analytical questions which are highlighted by traditions outlined above. Equally, the discipline is now subject to a lively methodological debate about how scholars might best explain policies and outcomes in IPE. In essence this debate is about whether you can assume what states' (and other actors') preferences and interests are. If you can, then rational choice (or `neo-utilitarian' as some say) approaches to IPE make sense. However, if you open up the question as to why and how states and other actors come to have particular preferences, then you are pushed towards approaches now often labelled `social constructivism'.

What is `rational choice' or neo-utilitarianism?

In the United States, the study of IPE has become dominated by a `rational choice' or neo-utilitarian approach. This borrows economic concepts to explain politics. Instead of exploring the ideas, personalities, ideologies or the historical traditions which lie behind policies and institutions, rational choice focuses on the incentive structure faced by those making decisions. It is assumed that actors' interests and preferences are known or fixed and that actors can make strategic choices as to how best to promote their interests. The term `rational choice' is a useful one to describe this approach since it proposes that even though a particular policy may seem stupid or wrong, it may well have been rational. `Rational' in this sense means that for the actor or group concerned, this was the optimal choice given the specific incentives and institutional constraints and opportunities that existed at the time.

The rational choice approach can be applied to any one of the several levels of analysis highlighted above: to individual decision-makers, to interest groups, to sectors in the economy, to parts of the government bureaucracy, or indeed to states in their interactions with other states. Let us examine two different applications of rational choice.

Political economy: the application of rational choice to groups within the state

Rational choice has been applied to interest groups and their influence on IPE in what has been called a political economy approach to IPE. This approach has its roots in explanations of trade policy which focus on interest groups. More recent applications have attempted to explain why countries adapt in particular

ways to changes in the world economy. The analysis proceeds on the assumption that governments and their policies are important but that the policies and preferences of governments reflect the actions of specific interest groups within the economy. These groups may emerge along class or sectoral lines, indeed, the assumptions of rational choice are applied to explain how particular groups within the economy emerge and what their goals and policy preferences are. Furthermore, rational choice provides a framework for understanding the coalitions these groups enter into and their interactions with other institutions. For example, in explaining developing country responses to the debt crisis of the 1980s, a political economy approach starts out by examining the effect of economic `shocks' such as high interest rates and structural adjustment on interest groups. By demonstrating that the power of some interests (such as those working in the export sector) has increased and the power of others (such as those working in industries relying on diminishing state subsidies) has diminished, the approach proffers an explanation for radical shifts in government policies.

Institutionalism: the application of rational choice to states

A different application of rational choice lies in the institutionalist approach to IPE (about which more is said in the last section). This approach
applies the assumptions of rational choice to states in their interaction with other states. Drawing on theories of delegation and agency, it offers an explanation as to why institutions exist and for what purposes. The core assumption is that states create international institutions and delegate power to them in order to maximize utility within the constraints of world markets and world politics. Frequently this comes down to the need to resolve collective-action problems. For example, states realize that they cannot achieve their goals in areas such as trade or environment, unless all other states also embark upon a particular course of action. Hence, institutions are created to ensure that there is no defection or free-riding, and the collective goal is achieved.

Social constructivism

In contrast to rational choice analysis, other approaches to international political economy assume that policies within the world economy are affected by historical and sociological factors. Much more attention is paid to the ways in which actors formulate preferences, as well as to the processes by which decisions are made and implemented. In other words, rather than assuming that a state or decision-maker's preferences reflect rational choices within given constraints and opportunities, analysts in a broader tradition of IPE, examine the beliefs, roles, traditions, ideologies and patterns of influence which shape preferences, behaviour and outcomes. More will be said below about social constructivism in general. Let us focus here on one particular variant.

The neo-gramscian approach: a radical variant

One strand of thinking about how and why actors have particular preferences draws on the ideas and insights of Italian political theorist Antonio Gramsci to highlight the role of politics, law, culture, and knowledge generally in shaping the preferences and policies of actors. The starting point here is that interests, actions and behaviour in the world economy all take place within a structure of ideas, culture and knowledge. We cannot simply assume that the preferences of actors within the system reflect objectively definable competing `interests'. Rather, the way actors understand their own preferences will depend heavily upon prevailing beliefs and patterns of thinking in the world economy, many of which are embodied in institutions. The question this poses is: whose interests and ideas are embodied in the rules and norms of

the system?

For neo-Gramscians the answer to the question `in whose interest' lies in hegemony. The dominant power within the system will achieve goals not just through coercion but equally by ensuring the consent of other actors within the system. This means that dominant powers will promulgate institutions, ideologies and ideas all of which help to persuade other actors that their best interests converge with those of the dominant power. For example, neo-Gramscians interpret the dominance of neo-liberalism since the 1980s as a reflection of US interests in the global economy, successfully projected through structures of knowledge (it became the dominant paradigm in top research universities), through institutions (such as the IMF which became forceful proponents of neo-liberal policy prescriptions), and through broader cultural beliefs and understandings (the very language of `free' market contrasting with restricted or repressive regimes).

Box 7: Examples of new approaches to IPE

	Depiction of world economy	**Core actors**	**Key driving forces**	**Conditions for order**
Institutionalist	arena of inter-state cooperation	governments and the institutions to whom they delegate power	rational choice at the level of the state: potential gains from cooperation	institutions which permit cooperation to continue
Political economy	competition among vested interests within different kinds of states	interest groups formed within the domestic economy	rational choice at the level of groups within the domestic economy responding to changes in the international economy	conditions for international order not a concern of these theorists
Neo-gramscians	over-arching structure of knowledge, ideas and institutions which reflect the interests of dominant actors and within which competition takes place	the structure of the system is vital in understanding the identities and preferences of the actors	capitalist competition constrained by the need of the powerful to gain the consent of the less powerful	more is required than dominance by one state: hegemony requires control over the structures of knowledge and ideas as well

New approaches to IPE highlight a powerful debate within the subject about whether we should treat states' interests and preferences as given or fixed. We return to this question in the final section of this chapter. There we will examine why states form institutions and what role such institutions might play in managing globalization. First, though we need to establish what is globalization in the world economy and what are its implications.

Key points:

- Rational choice explains outcomes in IPE as the result of actors' choices which are assumed always to be rationally power or utility-maximizing within given particular incentives and institutional constraints.
- Political economy applies rational choice to sub-state actors such as coalitions, interest groups and bureaucrats in order to explain outcomes in a state's foreign economic policy.
- Institutionalists apply rational choice to states in their interactions with other states in order to explain international cooperation in economic affairs.
- Constructivist approaches pay more attention to how governments, states and other actors construct their preferences, highlighting the role of identities, beliefs, traditions, and values in this process.
- Neo-gramscians highlight that actors define and pursue their interests within a structure of ideas, culture and knowledge which itself is shaped by hegemonic powers.

The Globalization debate in International Political Economy

The nature and impact of globalization is the subject of profound debate within IPE (as within other areas of international relations discussed in this book). The term globalization is used to refer to at least three different sets of forces processes in the world economy. **Internationalization** describes the increase in economic transactions across borders which has been taking place since the turn of the century but which some argue has undergone a quantitative leap in recent decades. **The technological revolution** is a second aspect of globalization, describing the effect of new electronic communication which permits firms and other actors to operate globally with much less regard for location, distance, and borders. Finally, **liberalization** describes the policies undertaken by states which have made a new global economy possible. This includes both the rules and institutions created by powerful states to facilitate a new scale of transnational economic activity in certain sectors (but by no means all) of the world economy. It also includes the policies of smaller and less powerful states in the system who, by liberalizing trade, investment and production, have integrated into the world economy.

In IPE several competing claims are made about globalization. For example, while some scholars argue that globalization is nothing new, others posit that globalization is dramatically diminishing the role of the state. Still others claim that globalization is exacerbating inequalities and giving rise to a more unequal and unjust world. To make sense of these different arguments and the evidence adduced to support them, it is worth thinking about the approaches to IPE covered in previous sections, for they help to identify key differences in emphasis which give rise to conflicting interpretations of globalization. For example, sceptics who deny that globalization is transforming world politics tend to focus on the `**internationalization**' element of globalization (see box 8). They can then draw upon evidence which throws into doubt whether the number of transactions taking place among states has indeed risen (UNDP 1997), and make the argument that there is `nothing new' in the growing interdependence of states. By contrast, liberal enthusiasts of globalization focus on **technological innovation** and the non-political` `objective' forces which are shrinking the world economy. They argue that this is creating a less political, more efficient, more unified world order. Their optimism and emphasis is rejected by critics who focus on **liberalization** and the role of states' policies in shaping globalization. These critics highlight the role of powerful states in setting the rules of the new globalized international economy, and their increasing influence over less powerful states.

Box 8: Three aspects of globalization

Internationalization describes the increase in transactions among states reflected in flows of trade, investment and capital (cf the argument that these flows have not increased as much as is claimed: UNDP 1997). The processes of internationalization have been facilitated and are shaped by inter-state agreements on on trade, investment, and capital, as well as by domestic policies permitting the private sector to transact abroad.

The technological revolution refers to the way modern communications (internet, satellite communications, high-tech computers) made possible by technological advances have made distance and location less important factors not just for government (including at local and regional levels) but equally in the calculations of other actors such as firms' decisions to invest or in the membership and activities of social movements.

Liberalization describes government policies which reduce the role of the state in the economy such as through the dismantling of trade tariffs and barriers, the deregulation and opening of the financial sector to foreign investors, and the privatization of state enterprises.

In the section below, the debate between sceptics and enthusiasts is examined in asking whether globalization is eroding the sovereignty and power of the state. The subsequent section examines the differences in the impact of globalization on strong and weak states.

Is globalization diminishing the role of the state in the world economy?

The globalists

`A global economy is emerging' claim those who depict a world in which multinational trade, production, investment, and financing moves in and out of countries ever more easily. The `globalists' tell us that as a result, governments and states are losing their capacity to control economic interactions. This is partly because the quantity and rapidity of flows make it more difficult for governments to regulate trade, investment or capital. Equally important is the fact that firms and investors can more easily take their business elsewhere puts new constraints on governments trying to retain and encourage investment. The argument here is that `footloose' modern businesses will simply exit from a country if a government does not pursue liberalizing policies which foster corporate profitability and flexibility. For this reason, governments are under pressure to reduce taxes and to cut back state expenditure on health, education, pensions and so forth. When it comes to regulating international business, governments are permitting investors themselves to set the rules and these private actors are doing so though new private international networks and self-regulatory agencies. In sum, states are losing power in a global economic order in which state borders and governments are less influential. This eventuality is, of course, embraced by those interpreting it from a `liberal' (see box 6) starting point.

BOX 9: The globalists

`The nation state has become an unnatural, even dysfunctional, unit for organizing human activity and managing economic endeavour in a borderless world. It represents no genuine, shared community of economic interest; it defines no meaningful flows of economic activity'.

Kenichi Ohmae, *The Borderless World: Power and Strategy in the Interlinked Economy* (London: Harper Collins, 1990, reprinted 1994), p.24.

The sceptics

Countering the `global economy' view are a variety of sceptics who highlight flaws in the argument and the evidence proposed by those who argue that the state is losing power. The proposition that states are under pressure to cut taxes and reduce expenditure is attacked by scholars who examine data of industrialized countries and demonstrates that the evidence does not back up this claim. Nor does the evidence suggest that MNEs relocate investment to areas where there are lower wages and lower taxes. Rather contemporary research into actual patterns of MNE investment discloses that in the new knowledge-intensive economy, factors such as the availability of skilled and semi-skilled labour, good infrastructure and proximity to market are crucial ingredients to choices of location. The conclusion drawn from this evidence is that the role of states is not eroding. To the contrary, states and government still have a very important and substantial role to play in a successful economy.

BOX 6: The sceptics

`the closer we looked the shallower and more unfounded became the claims of the more radical globalists. In particular, we began to be disturbed by three facts: first, the absence of a commonly accepted model of the new global economy and how it differs from previous sates of the international economy; second...the tendency casually to cite examples of internationalization of sectors and processes as if they were evidence of the growth of an economy dominated by autonomous global market forces; and third, the lack of historical depth, the tendency to portray current changes as both unique and without precedent and firmly set to persist long into the future'

Paul Hirst and Grahame Thompson, *Globalization in Question* (Cambridge, Polity Press, 1996), p.2.

New constraints on states

While sceptics knock holes in some of the arguments about the erosion of state power in the face of global multinational enterprises, other aspects of globalization do constrain all states. In particular, the fact that billions of dollars can flood in, or out, of a country overnight sets a new constraint on monetary policy and opens up new vulnerabilities in the financial sectors of all countries. In other words governments have to be very careful in managing interest rates and managing or floating exchange rates. Equally they need robust domestic banking and financial systems to weather the onslaught or recession of a tidal wave of capital.

The punishment for poor policy is instantaneous and devastating. Furthermore, as the Asian financial crisis of 1997 (see Box 11) showed, it is not only the culprit country who bears the punishment. The financial crisis in Asia highlighted the potential vulnerability of all countries to massive inflows and outflows of capital. It also underlined that some states suffer the impact of globalization more than others.

BOX 11: The Asian Financial Crisis

In 1997 a financial crisis spread rapidly throughout Asia. It began in March of that year when difficulties in Thailand's financial institutions sparked a tremendous outflow of capital from the country. As capital fled, the Thai currency was weakened, forcing the government to float (after which the currency depreciated by 15-20%). Within weeks the crisis in Thailand spread to Indonesia, Malaysia, and the Philippines in what the IMF referred to as a `currency meltdown'. By the end of 1997 Thailand, Indonesia and Korea had all been forced to turn to the IMF to negotiate access to funds in return for agreement to abide by tough conditions setting out reforms they had to promise to undertake within their economies. Meanwhile, the Malaysian government undertook its own policies of adjustment and imposed capital controls in order to stem the damaging effects of capital mobility. Scholars are still debating the relative advantages and disadvantages of these strategies. A vigorous debate has focussed in particular on whether the IMF was right to impose tough conditions, with some arguing that in so doing it exacerbated a deep recession in the region.

The debate about the IMF's intervention in the Asian financial crisis

The IMF applied heavy conditions to the Asian countries on the grounds that the causes of the crisis were `mainly domestic': `these countries became victims of their own success'...which...`led domestic and foreign investors to underestimate the countries' economic weaknesses'. `The fundamental policy shortcomings'... of policy-makers in these countries included permitting a `buildup of overheating pressures',`pegged exchange regimes', and `weak management and poor control of risks, lax enforcement of prudential rules and inadequate supervision' in the financial system. (IMF, *World Economic Outlook*, 1998, p.3)

Critics argued that the IMF applied the wrong policies: `the particular set of models that the IMF uses have been inappropriate in many situations, e.g. in the crisis in East Asia, it is clear that their forecasts concerning the countries affected by the crisis were badly misguided.' (Joseph Stiglitz in Christopher Gilbert and David Vines (eds), *The World Bank: Policies and Structure*, Cambridge University Press, 2000).

And that the IMF had no right to impose these kinds of conditions: `The legitimate political institutions of the country should determine the nation's economic structure and the nature of its institutions. A nation's desperate need for short-term financial help does not give the IMF the moral right to substitute its technical judgements for the outcomes of the nation's political process'.(Marty Feldstein, `Refocusing the IMF', *Foreign Affairs* 77 (1998), p.24).

The impact of globalization on different kinds of states

The Asian crisis highlights that states have different capacities to respond to globalization. Even though all states in the region were affected by the crisis, their responses suggested that some enjoyed more choice or `sovereignty' than others. Indonesia, Thailand and Korea turned to the IMF for assistance conditional on a raft of policies mostly defined in Washington DC. Meanwhile Malaysia formulated its own policies of adjustment and imposed policies such as capital controls which were greatly disapproved of in Washington DC. Although globalists and sceptics treat all states as equal in their arguments about globalization, it is

worth questioning this.

One way to think about the impact of globalization is to distinguish between `strong states' and `weak states'. At the extreme end of strong states are those which shape the rules and institutions which have made a global economy possible: we have already seen the way US policies shaped the creation, implementation, and breakdown of the Bretton Woods system. A more general description of strong states is that they can control - to some degree - the nature and speed of their integration into the world economy. Into this category we might place not only relatively strong industrialized countries, but also developing countries such as Brazil, Malaysia, China, Iraq, and Iran. In all of these cases, globalization is having a powerful effect, as is evidenced by the restructuring of national and private industries in industrialized countries, the past decade of economic liberalization in Brazil, and in a radically different way, through international coercive interventions in Iraq. Yet at the same time, in each of these countries there are high protective barriers in important sectors of the economy, and measures such as capital controls or the regulation of international capital are seriously debated. The capacity of these countries to control their integration into the world economy is doubtless related to their size, resources, geostrategic advantages, and economic strength. However, interestingly, it seems also to be related to their national ideology and the domestic power of the state. One thing that all `strong states' have in common is that they guard with equal ferocity their independence in economic policy, foreign policy, human rights and security issues.

`Weak states' by contrast suffer from a lack of choice in their international economic relations. They have little or no influence in the creation and enforcement of rules in the system and they have exercised little control over their own integration into the world economy. For example, in the aftermath of the debt crisis of the 1980s, many `weak states' opened up their economies, liberalized and deregulated, more as a result of coercive liberalization than of democratic policy choice. In the 1990s, this continued with what an international economist called `forced harmonization', whereby, for instance, in the case of trade negotiations on intellectual property, developing countries were coerced into an agreement which transfers `billions of dollars' worth of monopoly profits from poor countries to rich countries under the guise of protecting the property rights of inventors' (Rodrik, 1999).

Distinguishing among states according to their capacity to shape and respond to globalization is vital in analysing the impact on IPE. The example of the international financial system demonstrates that some states, in particular the United States, are rule-makers in the world economy, while less powerful states are rule-takers.

Key points:

- Globalization poses some new constraints for all states, including the most powerful. In particular, the emergence of global capital markets means that all governments have to be cautious in their choice of exchange rate and interest rate policies.
- On other issues of economic policy, wealthier and more powerful countries are less constrained by globalization than is portrayed by the globalists. This is because the firms and investors whom governments are keen to attract are not solely concerned with levels of taxation and wages. They are equally concerned with factors such as the skills of the workforce, the provision of infrastructure, and proximity to markets.
- At the international level the more powerful states in the system get to set (and enforce) many of the rules of the new global economy.
- Weaker states in the system not only must accept and abide by rules set by others, but also have

little capacity to manage their integration into the world economy. These states do not enjoy much sovereignty or independence of policy choice in the global economy.

International institutions in the globalizing world economy

We have seen that globalization is increasing interdependence among states, it is also increased global interconnectedness, and the capacity of some states to influence others. The Asian financial crisis exhibited all three of these changes. The countries of Asia had `liberalized' into global capital markets (with much encouragement from the United States and other industrialized countries) and soon became recipients of large inflows of short-term capital. As soon as confidence in Thailand faltered, reactions were instantaneously transmitted to investors (through the new communications networks). The subsequent debacle of 1997 demonstrated how quickly, easily and devastatingly a financial crisis in one country can spill over into others.

The management of the Asian financial crisis led some policy-makers to call for stronger, more effective international institutions, including a capacity to ensure better information and monitoring, deeper cooperation, and regulation in the world economy. At the same time however, others argued that the crisis revealed the problems and flaws of existing international institutions and the bias or interests which they reflect (see box 11). These positions echo a larger debate in IPE about the nature and impact of institutions in the world economy. This debate is important in helping us to determine what role international institutions might play in managing the new problems and challenges arising from globalization.

Competing accounts of institutions echo the differences in approaches to IPE already discussed in earlier sections (and see chapter 12 [the regimes chapter]). Institutionalists (or neo-liberal institutionalists, as chapter 8 refers to them) tell us that states will create institutions in order better to achieve gains through policy coordination and cooperation. However, several preconditions are necessary for this to occur. These conditions include: the existence of mutual interests that make joint gains from cooperation possible; a long-term relationship among relatively small number of actors; and reciprocity according to agreed-upon standards of appropriate behaviour. Under these conditions, institutionalists argue that states will agree to be bound by certain rules, norms or decisions of international organizations. This does not mean that the most powerful states in the system will always obey the rules. Rather, institutions affect international politics because they open up new reasons to cooperate, they permit states to define their interests in a more cooperative way, they foster negotiations among states as well as compliance with mutually agreed rules and standards.

The institutionalist account offers reasons for a certain kind of optimism about the role international institutions will play in managing globalization. Institutions will smooth over many gaps and failures in the operation of markets, and serve to ensure that states make genuinely rational and optimizing decisions to cooperate. Globalization will be managed by existing institutions and organizations and indeed, new institutions will probably also emerge. Globalization managed in this way will ensure that the world economy moves more towards the liberal model (see box 6) and that both strong and weak states benefit. Although there have been many protests about international organizations (see box 12), these are the result of people misunderstanding the advantages of free trade and free movements of capital in the world economy.

Box 12 Anti-globalization protests against international organizations

The WTO Ministerial Conference in Seattle, November 1999 (the day before):

> `They are pouring into Seattle this weekend in vans and on buses, by air and on foot - the college students and the church groups, the environmental campaigners, the Teamsters, Ralph Nader, Chinese dissidents and the man who became a hero in France for defacing a McDonald's. All of them say they are outraged at the growing power of a group few even heard about five years ago, the World Trade Organization. And so, with tens of thousands massing, they are planning to turn what initially sounded like the yawner of all international meetings -- a gathering of trade ministers from 135 countries to start the "Millennium Round" of trade liberalization talks - into the Woodstock of the era of globalization. (*New York Times*, 28 November, 1999)

The IMF and World Bank Annual Meeting in September 2000:

> `Dozens of anti-capitalism protesters and police were injured today as violent clashes erupted near the Prague Congress Centre where the International Monetary Fund and World Bank are holding their annual meeting. Eyewitnesses said that protesters threw stones, bottles and at least three petrol bombs at a police cordon 300m from the conference centre. (*The Times*, 26 September, 2000)

Realists (and neo-realists in particular) disagree with institutionalists. Realists reject the idea that institutions emerge primarily as a solution to universal problems or market failures. They argue that international institutions and organizations will always reflect the interests of dominant states within the system. When these states wish to coordinate policies with others, they will create institutions. Once created, however, these institutions will not (as the institutionalists argue) transform the way states define and pursue their interests. Institutions will be effective only for as long as they do not diminish the power of dominant states vis-a-vis other states.

Let us consider what this means in practice. Take a state deciding whether to sign up to a new trade agreement or support the decision of an international organization. The institutionalists argue that policy-makers will consider the `absolute' gains to be made from the agreement, including the potential longer-term gains such as advancing a more stable and credible system of rules. The neo-realists by contrast, argue that policy-makers will primarily be concerned with `relative' gains. In other words, they will ask `do we gain more from this than other states' rather than asking `do we gain from this'. If other states stand to gain more, then the advantages of signing up are outweighed by the fact that the power of the state will be diminished vis-a-vis other states.

For realists, cooperation and institutions are heavily constrained by underlying calculations about power. Having signed an agreement or created an international organization, a powerful state will not necessarily be bound by it. Indeed, if it got in the way of the state's interests (defined in realist terms), a powerful state will simply sweep the institution aside. The implications for globalization and its impact on weak states are rather grim. International institutions, including organizations such as the IMF, the World Bank and the WTO, will manage globalization but in the interests of their most powerful members. Institutions will only accommodate the needs and interests of weaker states where in so doing they do not diminish the dominant position of powerful states. From a realist perspective, it follows that anti-globalization protesters

in Seattle and Prague were right to argue that the international institutions do not work for the interests of poor and developing countries. However, the realists are equally certain that such protests will have little impact.

This interpretation of international institutions is rebutted not only by institutionalists, but by those who delve into the ways ideas, beliefs and interactions shape the behaviour of states. In an earlier section, we explored the neo-Gramscian approach, let us now introduce the broader constructivist approach which has been mentioned in other chapters of this book.

Constructivists reject the idea that institutions reflect the `rational' calculations of states either within inter-state competition (realists) or as part of a calculation of longer-term economic advantage and benefits from cooperation (institutionalists). In fact what constructivists reject is the idea that states' interests are objectively definable and fixed. Instead, they argue that any one state's interests are affected by its identify as a state and that both its interests and identity are influence by a social structure of interactions, normative ideas and beliefs. If we cannot assume that states have a particular identity or interest prior to their interactions, then the institutionalists are wrong to assume that institutions emerge as rational responses to the needs of markets, trade, finance and the like. Equally, the realists are wrong to assume that institutions can only be reflections of power politics. To quote constructivist Alex Wendt `anarchy is what states make of it' (see chapter 9). In other words, identities and interests are more fluid and changing than realists permit. Though their interactions and discourse, states change and these changes can reflect in institutions.

Constructivism and the neo-Gramscian approach highlight actors and processes involved in globalization which are neglected in realist and institutionalist accounts and have important ramifications for institutions. For example, the protesters against the WTO, the IMF, and the World Bank can be construed as part of an ongoing dialogue which affects states in several ways. The international attention to these issues places them on the agenda of international meetings and organizations, it also puts pressures on political leaders and encourages interest groups and pressures to form within the state. As a result the beliefs, ideas and conceptions of interest in international relations change and this can shift the attention, nature and functions of international institutions. On this view, globalization is not just a process affecting and managed by states. Several other actors are involved, both within and across societies, including international institutions which play a dynamic role. The governance or management of globalization is shaped by a mixture of interests, beliefs and values about how the world works and how it ought to be. The existing institutions doubtless reflect the interests of powerful states, however, these interests are the products of the way states interact and are subject to reinterpretation and change.

Box 13: The debate about institutions

	Institutionalist (or `neo-liberal institutionalist')	**Realist (or `neo-realist)**	**Constructivist**
Under what conditions will states create international institutions?	For mutual gains (rationally calculated by states).	Only where relative position vis-a-vis other states is not adversely affected.	Institutions arise as a reflection of the identities and interests of states and groups which are themselves forged through interaction.
What impact do institutions have on international relations?	Expands the possible gains to be made from cooperation.	Facilitate the coordination of policies and actions but only insofar as this does not alter the balance of power among states.	Reinforce particular patterns of interaction, and reflect new ones.
The implications for globalization	Institutions can manage globalization to ensure a transition to a more `liberal' economy (see box: trad app)	Institutions will `manage' globalization in the interests of dominant and powerful states.	Changing patterns of interaction and discourse will reflect in institutional responses to globalization.

Key Points:

- Institutionalists argue that international institutions will play an important and positive role in ensuring that globalization results in widely spread benefits in the world economy.
- Realists and neo-realists reject the institutionalist argument on the grounds that it does not account for the unwillingness of states ever to sacrifice power relative to other states.
- Constructivists pay more attention to how governments, states and other actors construct their preferences, highlighting the role that state identities, dominant beliefs, and ongoing debates and contestation plays in this process.

Conclusions

Conclusions

Globalization increases the challenges faced by all actors in the world economy: states, firms, transnational actors, and international organizations. Strong states are trying to shape institutions to manage financial crises, powerful NGOs, and globalizing firms. Weak states are trying to survive increasingly precarious and changeable economic circumstances. Common to all states is the search for greater stability and predictability, although governments disagree over how and where this should be achieved. One layer of governance this chapter has not examined is that of regional organizations and institutions (see chapter 21). The fact that in recent years virtually every state in the world has joined at least one regional trade grouping underscores the search for new ways to manage globalization. At the same time, regionalism highlights the scepticism of many states about international institutions, and their fears that institutions are too dominated

by powerful states, or unlikely to constrain them. The result is an emerging multi-layered governance in the world economy. At each level (international, regional, and state) the core issues debated in this chapter arise. These include: whose interests are served by the institution? What forces are shaping it? Who has access to it? Whose values does it reflect? Globalization casts a spotlight on these arrangements since the transformations occurring in the world economy are being powerfully shaped by them.

ADDITIONAL MATERIAL

Questions:

1. In what ways did the Bretton Woods framework for the post-war economy try to avoid the economic problems of the inter-war years?
2. What was the `breakdown in the Bretton Woods system'?
3. Did a loss of US hegemony cause the breakdown of the Bretton Woods system?
4. Are there any issues on which mercantilists agree with liberals?
5. What is different about the marxian and mercantilist depictions of power in the international economy?
6. Does rational choice theory explain more about outcomes than actors' preferences?
7. At what levels of analysis is rational choice applied in IPE?
8. In what way do neo-Gramscians invoke structure in their explanation of IPE?
9. What are the different processes referred to by the term globalization?
10. Why do sceptics doubt that globalization is transforming IPE?
11. What vulnerabilities faced by states in the globalizing economy did the Asian financial crisis demonstrate?
12. How can we explain the different impact globalization has on different states?
13. How and why do institutionalists argue that institutions change the behaviour of states?
14. For whom might the realist account of institutions and globalization be cheerful reading?
15. Why might social constructivists pay more attention to anti-globalization protests than either realists or institutionalists?

Annotated Readings:

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