



International political economy

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**Economics, Management,
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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:

Ravenhill, John (ed.) *Global political economy*. (Oxford: Oxford University Press, 2010) third edition [ISBN 9780199570812].

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:

O'Brien, Robert and Marc Williams *The global political economy: evolution and dynamics*. (Basingstoke: Palgrave, 2010) third edition [ISBN 9780230241213].

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:

Gilpin, Robert *Global political economy: understanding the international economic order*. (Princeton: Princeton University Press, 2001) [ISBN 8125023062].

Gilpin, Robert *The challenge of global capitalism: the world economy in the 21st century*. (Princeton: Princeton University Press, 2000) [ISBN 0691092796].

Grieco, Joseph M. and G. John Ikenberry *State power and world markets: the international political economy*. (New York; London: W.W. Norton, 2002) [ISBN 0393974197].

Spero, Joan Edelman and Jeffrey A. Hart *The politics of international economic relations*. (South Melbourne; Belmont, CA:Wadsworth Publishing, 2006) seventh edition [ISBN 0534602746].

Walter, Andrew and Gautam Sen *Analyzing the global political economy*. (Princeton: Princeton University Press, 2008) [ISBN 0691139598].

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:

Cohen, Benjamin J. *International political economy: an intellectual history*. (Princeton: Princeton University Press, 2008) [ISBN 069113569X].

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

IPE	International Political Economy
IR	International Relations
ISI	Import Substitution Industrialisation
ITO	International Trade Organization
MAI	Multilateral Agreement on Investment
MEA	Multilateral Environmental Agreement
MFN	Most-Favoured Nation
MNC	Multinational Corporation
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organisation
NGO	Non-Governmental Organisation
NIC	Newly Industrialising Country
NTB	Non-Tariff Trade Barrier
OAS	Organization of American States
OECD	Organization for Economic Cooperation and Development
PPP	Purchasing Power Parity
RTA	Regional Trade Agreement
SDT	Special and Differential Treatment
TRIMS	Trade-related Investment Measures Agreement
TRIPS	Trade-related Aspects of Intellectual Property Rights Agreement
US	United States
UN	United Nations
UNCED	United Nations Conference on Environment and Development
UNCHE	United Nations Conference on the Human Environment
UNEP	United Nations Environment Programme
WSSD	World Summit on Sustainable Development
WTO	World Trade Organization

Notes

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

Ravenhill, John (ed.) *Global political economy*. (Oxford: Oxford University Press, 2010) third edition [ISBN 9780199570812] Chapter 9 (by McGrew).

Recommended reading

- *Bordo, Michael, Barry Eichengreen and Douglas Irwin 'Is globalization today really different than globalisation a hundred years ago?', *NBER Working Paper* 7195 (1999).
- *Gilpin, Robert *The challenge of global capitalism: the world economy in the 21st century*. (Princeton: Princeton University Press, 2000) [ISBN 0691092796] Chapter 10.
- *Hirst, Paul, and Grahame Thompson 'The Future of Globalization', *Cooperation and Conflict* 37(3) 2002, pp.247–65.
- Mosley, L. 'Globalisation and the State: Still Room to Move?', *New Political Economy*, 10(3) 2005, pp.355–62.
- *Scholte, Jan Aart *Globalization: a critical introduction*. (Basingstoke: Macmillan, 2005) second edition [ISBN 0312236328].
- * Strongly recommended.

Further reading

- Beck, Ulrich *What is globalization?* (Malden, MA: Polity, 2000) [ISBN 0745621260].
- Garrett, Geoffrey *Partisan politics in the global economy*. (Cambridge: Cambridge University Press, 1998) [ISBN 0521446902].

- Gilpin, Robert *Global political economy: understanding the international economic order*. (Princeton: Princeton University Press, 2001) [ISBN 8125023062].
- Held, David, and Anthony McGrew (eds) *Governing globalization: power, authority and global governance*. (Cambridge: Polity Press, 2002) [ISBN 0745641520].
- Held, David. and Anthony McGrew *Globalization and anti-globalization*. (Cambridge: Polity Press, 2007) [ISBN 0745639119].
- Held, David, Anthony McGrew, David Goldblatt and Jonathan Perraton *Global transformations: politics, economics and culture*. (Cambridge: Polity, 1999) [ISBN 0804736278].
- Hirst, Paul, Grahame Thompson and Simon Bromley *Globalization in question*. (Cambridge: Polity, 2009) third edition [ISBN 0745621643] especially Chapters 1, 2 and 9.
- Ravenhill, John (ed.) *Global political economy*. (Oxford: Oxford University Press, 2010) third edition [ISBN 9780199570812] Chapter 10 (by Hay).
- Strange, Susan 'The Westfailure System', *Review of International Studies* 25(3) 1999, pp.345–54.
- Strange, Susan *States and markets: an introduction to international political economy*. (London: Pinter, 1993) second edition [ISBN 1855672367].
- Waltz, Kenneth N. 'Globalization and American Power', *National Interest* 59 2000, pp.46–56.
- Williamson, John. 'Winners and losers over two centuries of globalization,' *NBER Working Paper*, 9161 (2002).
- Wolf, Martin 'Globalization and Global Economic Governance', *Oxford Review of Economic Policy* 20(1) 2004, pp.72–84.

Websites

Unless otherwise stated, all websites in this subject guide were accessed in April 2011. We cannot guarantee, however, that they will stay current and you may need to perform an internet search to find the relevant pages.

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’.¹ 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...’.²

¹ Giddens, Anthony. 1990. *The Consequences of Modernity*, Cambridge: Polity, p.64.

² Cox, Robert W. 1996. ‘A Perspective on Globalization.’ in. *Mittelman, James (ed.) Globalization: Critical Reflections*. Boulder: Lynne Rienner.

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 economic 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 of 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

Notes

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

- Levi-Faur, David 'Friedrich List and the Political Economy of the Nation-State', *Review of International Political Economy* 4(1) 1997, pp.154–78.
- Ravenhill, John (ed.) *Global political economy*. (Oxford: Oxford University Press, 2010) third edition [ISBN 9780199570812] Chapter 2 (by Watson).

Recommended reading

- Gilpin, Robert *The political economy of international relations*. (Princeton: Princeton University Press, 1987) [ISBN 0691077320] pp.72–80.
- *Gilpin, Robert *Global political economy: understanding the international economic order*. (Princeton: Princeton University Press, 2001) [ISBN 8125023062].
- *Irwin, Douglas A. *Against the tide: an intellectual history of free trade*. (Princeton: Princeton University Press, 1996) [ISBN 0691058962] Chapters 2 and 8.
- Krasner, Stephen 'State Power and the Structure of International Trade', *World Politics* 26 1976, pp.317–43.
- *Mayall, James *Nationalism and international society*. (Cambridge: Cambridge University Press, 1990) [ISBN 0521389615].
- *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

- Baldwin, David A. *Economic statecraft*. (Princeton: Princeton University Press, 1985) [ISBN 0691101752] Chapter 5.
- Carr, E.H. *The twenty years' crisis, 1919–1939: an introduction to the study of international relations*. (London: Palgrave, 2001) revised edition [ISBN 0333963776].
- Economides, Spyros and Peter Wilson *The economic factor in international relations: a brief introduction*. (London: I.B. Tauris, 2001) [ISBN 1860646638] Chapter 3.
- Gomes, Leonard *Foreign trade and the national economy: mercantilist and classical perspectives*. (Basingstoke: Macmillan, 1987) [ISBN 0312007655].
- Harlen, Christine Margerum 'A Reappraisal of Classical Economic Nationalism and Economic Liberalism', *International Studies Quarterly* 43(4) 1999, pp.733–44.
- Helleiner, Eric 'Economic Nationalism as a Challenge to Neoliberalism? Lessons from the 19th Century', *International Studies Quarterly* 46(3) 2002, pp.307–29.
- Krasner, Stephen D. *Defending the national interest: raw materials investments and American foreign policy*. (Princeton: Princeton University Press, 1978) [ISBN 0691021821].
- Seers, Dudley *The political economy of nationalism*. (Oxford: Oxford University Press, 1983) [ISBN 019828456X].

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.

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?

Read Gilpin (2001), pp.93–102.

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

Ravenhill, John (ed.) *Global political economy*. (Oxford: Oxford University Press, 2010) third edition [ISBN 9780199570812] Chapter 2 (by Watson).
Wyatt-Walter, Andrew ‘Adam Smith and the Liberal Tradition in International Relations’, *Review of International Studies* 22(1)1996, pp.5–28.

Recommended reading

Keohane, Robert O. ‘International Liberalism Reconsidered’ in J. Dunn (ed.) *The economic limits of politics*. (Cambridge: Cambridge University Press, 1989) [ISBN 0521421519].
*Keohane, Robert O. and Joseph S. Nye Jr. *Power and interdependence*. (New York, Harlow: Longman, 1989) [ISBN 0321048571].
Richardson, Neil R. ‘International Trade as a Force for Peace’ in Charles W. Kegley Jr. (ed.) *Controversies in international relations theory: realism and the neoliberal challenge*. (New York: St. Martin’s Press, 1995) [ISBN 0312096534] pp.281–94.
* Strongly recommended

Further reading

Baldwin, David A. *Economic statecraft*. (Princeton: Princeton University Press, 1985) [ISBN 0691101752] Chapter 5.
Economides, Spyros and Peter Wilson *The economic factor in international relations: a brief introduction*. (London: I.B. Tauris, 2001) [ISBN 1860646638] Chapter 2.
Gomes, Leonard *Foreign trade and the national economy: mercantilist and classical perspectives*. (Basingstoke: Macmillan, 1987) [ISBN 0312007655].
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- Krasner, Stephen D. (ed.) *International regimes*. (Ithaca, NY: Cornell University Press, 1983) [ISBN 0801492505].
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- Sally, Razeen *Classical liberalism and international economic order: studies in theory and intellectual history*. (London: Routledge, 1998) [ISBN 0415164931].

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

For a discussion of the concept of interdependence read Robert Keohane and Joseph N. Nye (1989), Chapter 1.

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.

Notes