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**International Political Economy:
State-Market Relations in a
Changing Global Order**
SECOND EDITION

edited by
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Introduction

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Although a scant six years have passed since the first edition of this book was published, a myriad of significant events have underscored both the importance and the changing nature of the international political economy. In the trade and monetary systems, these include the financial crisis in Asia, the launch of the Euro, and the emergence of regional and transregional economic arrangements and their perceived challenge to economic globalization. More generally, the trends of the past decade have generated considerable debate about the role of knowledge, transnational corporations (TNCs), and multilateral institutions as vehicles for promoting growth and development.

While the virtues of economic globalization and the liberal market-oriented ideology continue to reign, evidence abounds of an increasing unease with the effects of unbridled market forces. The tumultuous events surrounding the 1999 ministerial meeting of the World Trade Organization (WTO) in Seattle, Washington propelled the globalization debate into the public consciousness. Demonstrating amidst the tear gas in the streets outside the meeting hall was a disparate *mélange* of protestors. Included among this group were unionized workers fearful of losing more jobs in the name of free trade, environmentalists condemning the WTO for putting trade ahead of nature, and activists calling for global labor standards. Some of the protesters demanded the WTO be abolished while others called for it to be strengthened. Despite contradictory views on what should be done, uniting these groups was a shared sense that “globalization”—the increasing integration of national societies and the economic, social, ecological, and political changes that result—was extremely damaging. Levels of unhappiness in the streets were matched by the frustration of delegates inside the meeting rooms. With trade ministers unable to agree on an agenda for negotiations, the meeting broke up with much finger pointing over who was to blame for its failure.

The debate over globalization is not new. Indeed, scholars of interna-

tional political economy have been studying the globalization process for many decades. What is new is an acceleration in the pace of change and the increasing number of people actively challenging the integration process. For each person marching in the streets there are many others who are slowly—but steadily—growing uncomfortable with its costs. In recent decades technological change combined with market oriented policy changes have exposed more and more of us to what Joseph Shumpeter called a process of “creative destruction.” He used this term to describe a capitalist dynamic that brings both good and bad at the same time. As the world’s peoples are drawn more tightly together through trade, capital flows, and information technologies, a growing sense of anxiety has broken out. As consumers, this integrative process gives us access to a larger quantity of new and better products. But as workers and producers, globalization brings greater competition and less job security. And as citizens, globalization challenges traditional values and ways of life while upsetting the ecological balance.

For the foreseeable future, IPE as a field of study will necessarily focus on the struggles playing themselves out in the meeting halls and streets of cities around the world. At no point in the post-World War II era has the liberal international economic order been under greater pressure. Defenders of the liberal order—academics and policy makers alike—will be forced to engage their opponents as they never have had to in the past. This will entail an ongoing debate involving all of the perspectives in this volume.

Making selections from the rich and varied contributions to the study of IPE was a difficult task. We set out to identify a core literature that would blend the theoretical and empirical explanations of IPE in such a way that readers—experts and uninitiated alike—would benefit. Looking at the finished product, we believe we have assembled an outstanding collection of essays, containing both theoretical and empirical depth, analyzing various aspects of international political economy.

The first part of the book presents representative works from the three major perspectives that provide the basic conceptual foundations of IPE: liberalism, economic nationalism, and structuralism. Chapters by Robert Gilpin and Jeffry Frieden and David Lake provide the student with an informed introduction to the study of IPE and to each of the perspectives. Adam Smith’s classic work describes the basic precepts of liberalism with its emphasis on the rationality of the market and free trade. Reflecting the core tenets of nationalism, Alexander Hamilton’s influential “Report on Manufacturers” justifies state intervention to promote economic development. Karl Marx’s seminal *Capital* and *Communist Manifesto* offer a stimulating platform for a critical discourse on global capitalism.

In an effort to provoke debate, we made a conscious decision to seek out modern expressions of each perspective. Chapters by Robert O. Keohane and Joseph S. Nye, Brink Lindsey, and Richard Rosecrance pro-

vide contemporary perspectives of liberalism. The state-centric streams of nationalist thought are well represented in the chapters by Stephen Krasner and Peter Evans. Krasner's essay analyzes the relative significance and positioning of the state in the global political economy. Evans offers an illuminating examination of the relevance of states in facilitating industrial transformation. Works by Samir Amin and Robert Went represent the structural perspectives, critically evaluating the nature and consequences of global capitalism.

The second part of this volume examines the international monetary system. Arguably no other area of IPE has been as profoundly affected by integration than global capital markets. With the fall of the Bretton Woods fixed exchange rate monetary system in 1971 and subsequent liberalization of capital flows in the following decade, it is the free movement of large quantities of capital that best represents "globalization." Since the first edition of this book was published, the world has experienced, as former World Bank chief economist Joseph Stiglitz phrased it, a "boom in busts." Instability in the world's capital markets was a hallmark of this period, wreaking havoc in Asia and at one point threatening the global financial system. Beyond Asia, countries such as Russia, Brazil, Turkey, and Argentina all suffered currency instability, capital flight, and attendant economic suffering. These problems provoked a sharp and ongoing debate on a variety of topics including the merits of capital mobility and the best way of dealing with monetary crises. In his contribution, Benjamin Cohen examines how traditional state-market relationships are being altered by the increasing integration of global capital markets. Roe Goddard provides an inside look at the International Monetary Fund (IMF): origins, organization, and evolving lending facilities. Kishore Dash investigates the political and economic causes of the Asian economic crisis and the role of the IMF in managing the resulting problems.

Overshadowed by problems in the international financial system were preparations leading to the introduction of a single currency within the European Union. The creation of the Euro is part of the most ambitious attempt at economic integration to date among the world's major economies. Olufemi Babarinde scrutinizes this process, highlighting a number of key issues, the resolution of which will determine the ultimate regional and international impact of the Euro "experiment."

Development, the subject of the third section of this book, remains an important issue within academic and policymaking circles. As we move deeper into a new century, it is clear that development achievements have fallen woefully short of meeting global needs. It is also widely recognized that the failure to raise standards of living in much of the world is a major factor in intra-state and inter-state conflict. The key question today, as it did over fifty years ago, revolves around the most appropriate strategy for development. From the backlash against globalization comes an emerging

challenge to the hegemonic “Washington Consensus” stressing free markets and a minimal state role. Within the debate over the appropriate role of states and markets in development is a more specific one over the part to be played by the World Bank. Just as the WTO is the focal point for popular anger with the liberal trading system, the World Bank is subject to fierce attacks for its promotion of a market-based approach to development. The essay by Charles Gore examines the larger debate on development while those of Bruce Rich and Robert Picciotto present contrasting opinions about the role of the Bank in the twenty-first century.

The fourth part of this volume focuses on important dynamics in the international trading system, particularly those underlying events in the past six years. The “Battle in Seattle” represented a “coming out” party for the anti-globalization movement, not because its constituent groups were protesting for the first time—they were not—but because the media latched on to them in a way that they never had before. As noted above, the level of discord in the streets equaled that experienced inside the meeting halls by governments arguing over the direction of the “rules of the game” for international trade. A fragile consensus following the September 11, 2001 terrorist attacks on the United States enabled the launch of the Doha Round negotiations in November 2001. But, as Patrick Cronin details, serious doubts remain over a successful outcome. Adding to the uncertainty are a growing series of trade disputes, particularly between the United States and the European Union, that threaten to undermine the post-war consensus in favor of free trade. Moreover, growing state preferences for regional integration arrangements are raising concerns that this too will lessen commitments to a multilateral rules-based system. In his essay, Robert Lawrence examines the forces behind regional integration and, from a developing country perspective, the merits of regional, multilateral, and “deeper” forms of integration.


Part five examines transnational corporations (TNC) as key agents in the globalization process. Flows of foreign direct investment increased from \$12 billion in 1970 to \$1.3 trillion in 2000. As a result, the United Nations recently estimated that there were 63,000 TNCs owning some 700,000 foreign affiliates. The spread of TNCs has led to a substantial increase in the amount of intra-firm trade. One estimate suggests that as much as one-third of global trade may now be conducted within companies instead of the arms-length variety in David Ricardo’s models. Simple statistics such as these suggest that TNCs are exerting a profound influence on capital and trade flows. As such, it is no surprise that they remain the object of considerable controversy, even more so in the context of the current debate over globalization. The contribution by Rhys Jenkins explores the theoretical underpinnings to a variety of common—and conflicting—views on the TNC. Complementing Jenkins, Roe Goddard defines the modern-day TNC by examining its varied nature, takes the reader inside the firm

and explores the determinants of foreign direct investment, and surveys changing geographical patterns of post–World War II investment flows.

As in the first edition, we reserved the concluding section for “big picture” issues sure to be at the center of IPE studies in the future. While the environment does not yet command the space that trade and monetary relations do, we believe that it will be a central topic of debate in decades to come. Our conviction is based on the arguments of our final two contributors, Hilary French and Susan Strange, and on a veritable explosion in the amount of work on this subject. Indeed, we found the study of IPE and the environment to be fragmenting into sub-disciplinary niches like more traditional issues relating to trade and finance. In that sense our challenge was to find pieces that took a comprehensive approach to the study of the environment and the state-market relationship. We decided to end this volume with what is perhaps the final published work by the eminent political economist Susan Strange. In this provocative—but tantalizingly underdeveloped work—she expresses our own concerns about the ability of state-based international system to deal effectively with the most pressing issues facing mankind.

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