The globalization debate in IPE

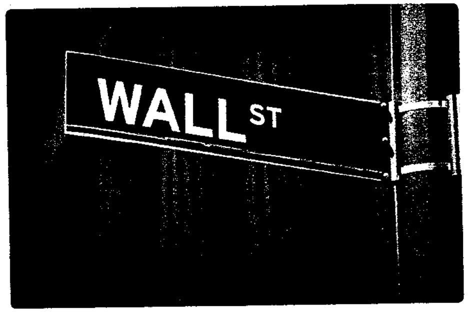
The nature and impact of globalization is the subject of profound debate within IPE (as within other areas of international relations discussed in this book). The term globalization is used to refer to at least four different sets of forces or processes in the world economy. **Internationalization** describes the increase in economic transactions across borders that has been taking place since the turn of the century but that some argue has undergone a quantitative leap in recent decades. The **technological revolution** describes the effect of new electronic communication, which permits firms and other actors to operate globally with much less regard for location, distance, and borders. One effect of the technological revolution is to speed up **deterritorialization**, or the extent to which territorial distances, borders, and places influence the way people collectively identify themselves and act, and seek political voice or recognition. In the decade before the 2008 crisis, there was much talk of footloose banks becoming deterritorialized and global. Their nationality was no longer relevant. However, in the wake of the crisis, it became clear that banks may 'live globally', but they die nationally, with their national governments picking up the costs of bailing them out. Finally, **liberalization** describes the policies undertaken by states that have made a new global economy possible. This includes changes in rules and institutions, which facilitated a new scale of transnational economic activity in certain sectors (but by no means all) of the world economy, including the liberalizing of trade, investment, and production.

Box 15.7 Four aspects of globalization

- **Internationalization** describes the increase in transactions among states reflected in flows of trade, investment, and capital, facilitated by inter-state agreements on trade, investment, and capital, and by domestic policies permitting the private sector to transact abroad.
- The **technological revolution** refers to the way modern communications (Internet, satellite communications, high-tech computers) have made distance and location less important factors not just for government (including at local and regional levels) but equally in the calculations of other actors, such as firms' investment decisions or in the activities of **social movements**.
- **Deterritorialization** is accelerated by the technological revolution and refers to the diminuition of influence of territorial places, distances, and boundaries over the way people collectively identify themselves or seek political recognition. This permits transnational political and economic activity, both positive and negative.
- **Liberalization** describes government policies that reduce the role of the state in the economy, such as through the dismantling of trade tariffs and barriers, the deregulation and opening of the financial sector to foreign investors, and the privatization of state enterprises.

In IPE several competing claims are made about globalization. For example, while some scholars argue that globalization is nothing new, others posit that globalization is dramatically diminishing the role of the state (see Ch. 1). Still others claim that globalization is exacerbating inequalities and giving rise to a more unequal and unjust world. To make sense of these different arguments, and the evidence adduced to support them, it is worth thinking about the approaches to IPE covered in previous sections, for they help to identify key differences in emphasis that give rise to conflicting interpretations of globalization. For example, sceptics who deny that globalization is transforming world politics tend to focus on the 'internationalization' element of globalization (see Box 15.7). They can then draw upon evidence that throws into doubt whether the number of transactions taking place among states has indeed risen (UNDP 1997), and make the argument that there is 'nothing new' in the growing interdependence of states. By contrast, **liberal enthusiasts** of globalization focus on technological innovation and the non-political 'objective' forces that are shrinking the world economy. They argue that this is creating a less political, more efficient, more unified world order. Those who focus on deterritorialization highlight that there is also a negative side to globalization. Just as technological innovation permits a more active global civil society, so too it permits the growth of an uncivil one. Terrorist **networks** and the growth of transnational crime grow easily and are harder to combat in an era of globalization. This puts an important caveat on a final argument about globalization—one that prioritizes the role powerful states play in shaping the process. Focusing on liberalization, several analysts highlight the role of powerful states, and the USA especially, in setting the rules of the new globalized international economy, and predict their increasing influence over other states. Yet the 2008 crisis demonstrated some limits to this. The post-war order and institutions were created by the USA, which was at the time the world's largest creditor; and had much to gain from the liberalization of trade in certain sectors and the liberalization of global finance. However, in 2008 the USA was the world's largest debtor. Emerging economies such as China, Brazil, and India had to be engaged in a coordinated solution. In these countries the government plays a stronger role in the economy than in the USA. At the same time, as these economies internationalize in more sectors, they too will acquire an interest in global liberalization.

Case Study The international financial crisis of 2008



In September 2008, a large US investment bank called Lehman Brothers defaulted, catalysing a major financial crisis. The government of the USA was soon forced to rescue the largest US insurance company, American International Group (AIG) while the UK and other European governments were forced to intervene to rescue other institutions. The total costs of cleaning up after the crisis were estimated one year later at US$11.9 trillion and, in the fourth quarter of 2008, industrialized countries were experiencing an unprecedented economic decline of 7.5 per cent.

In wealthy industrialized countries, the financial crisis exposed failures in corporate governance, in credit-rating agencies, and in regulation. Poor corporate governance led to excessive risk-taking by some providers of financial services. Poorly designed incentives, such as pay and bonuses, favoured short-term risk-taking. Credit-rating agencies who should have signalled fragilities in some institutions had little incentive so to do. Most of all, the financial crisis exposed the enormous and costly implicit guarantee that governments give to financial services firms because they are simply 'too big to fail'.

In poorer developing countries, the crisis provoked what the IMF and World Bank would describe in 2009 as a 'development emergency'. Trade slumped as demand from the rich countries fell, and even as the world economy recovered in 2010, the IMF was still predicting a further 16 per cent drop in low-income countries' exports of goods and services. Remittances, or money sent back home by workers in foreign countries, plummeted and were set to fall by a further 10 per cent in 2010. Flows of foreign direct investment dried up. Aid flows became yet more unpredictable and never reached the levels donors had promised. In short, for developing countries, the crisis revealed that participation in an interdependent global economy carries great risks due to unregulated global finance (from which most developing countries benefit little).

National and international policy-makers alike have agreed on the primacy of state authorities in regulation to restrict excessive risk. They have also agreed that national regulators must harmonize their policies in order to achieve global financial stability.

International institutions in the globalizing world economy

Globalization increases interdependence among states and increases the need for governments to coordinate. Financial crises in the 1990s, including in East Asia, led some policy-makers to call for stronger, more effective international institutions, including a capacity to ensure better information and monitoring, deeper cooperation, and regulation in the world economy. At the same time, critics argued that the crisis revealed the problems and flaws of existing international institutions and the bias or interests that they reflect. These positions echo a larger debate in IPE about the nature and impact of institutions in the world economy. This debate is important in helping us to determine what role international institutions might play in managing the new problems and challenges arising from globalization.

Competing accounts of institutions echo the differences in approaches to IPE already discussed. Institutionalists (or neo-liberal institutionalists (see Ch. 7)) tell us that states will create institutions in order better to achieve gains through policy **coordination** and cooperation. However, several conditions are necessary for this to occur. Under certain conditions, institutionalists argue that states will agree to be bound by certain rules, norms, or decisions of **international organizations**. This does not mean that the most powerful states in the system will always obey the rules. Rather, institutions affect

Table 15.1 The debate about institutions

	Institutionalist (or 'neo-liberal Institutionalist')	Realist (or 'neo-realist')	Constructivist
Under what conditions will states create international institutions?	For mutual gains (rationally calculated by states).	Only where relative position vis-à-vis other states is not adversely affected.	Institutions arise as a reflection of the identities and interests of states and groups that are themselves forged through interaction.
What impact do institutions have on international relations?	Expand the possible gains to be made from cooperation.	Facilitate the coordination of policies and actions but only in so far as this does not alter the balance of power among states.	Reinforce particular patterns of interaction, and reflect new ones.
The implications for globalization	Institutions can manage globalization to ensure a transition to a more 'liberal' economy (see Box 15.5).	Institutions will 'manage' globalization in the interests of dominant and powerful states.	Changing patterns of interaction and discourse will be reflected in institutional responses to globalization.

international politics because they open up new reasons to cooperate, they permit states to define their interests in a more cooperative way, and they foster negotiations among states as well as compliance with mutually agreed rules and standards.

The institutionalist account offers reasons for a certain kind of optimism about the role international institutions will play in managing globalization. Institutions will smooth over many gaps and failures in the operation of markets, and serve to ensure that states make genuinely rational and optimizing decisions to cooperate. Globalization will be managed by existing institutions and organizations and, indeed, new institutions will probably also emerge. Globalization managed in this way will ensure that the world economy moves more towards the **liberal** model and that both strong and weak states benefit. Although the financial crisis of 2008 highlights serious gaps in financial regulation (see Case Study), these can be remedied so as to permit countries to harness the advantages of free trade and free movements of capital in the world economy.

Realists (and neo-realists in particular) disagree with institutionalists (see Chs 5 and 7). Realists reject the idea that institutions emerge primarily as a solution to universal problems or market failures. They argue that international institutions and organizations will always reflect the interests of dominant states within the system. When these states wish to coordinate policies with others, they will create institutions. Once created, however, these institutions will not (as the institutionalists argue) transform the way states define and pursue their interests. Institutions will be effective only for as long as they do not diminish the power of dominant states *vis-à-vis* other states.

Let us consider what this means in practice. Take a state deciding whether to sign up to a new trade agreement or support the decision of an international organization. The institutionalists argue that policy-makers will consider the **absolute gains** to be made from the agreement, including the potential longer-term gains, such as advancing a more stable and credible system of rules. The neo-realists, by contrast, argue that policy-makers will primarily be concerned with **relative gains**. In other words, they will ask, 'do we gain more from this than other states?' (rather than 'do we gain from this?'). If other states stand to gain more, then the advantages of signing up are outweighed by the fact that the power of the state will be diminished vis-à-vis other states. For realists, cooperation and institutions are heavily constrained by underlying calculations about power. Having signed an agreement or created an international organization, a powerful state will not necessarily be bound by it. Indeed, if it got in the way of the state's interests (defined in realist terms), a powerful state will simply sweep the institution aside. The implications for globalization and its impact on weak states are rather grim. International institutions, including organizations such as the IMF, the World Bank, the WTO, the G8 and the EU, will manage globalization, but in the interests of their most powerful members. Institutions will only

accommodate the needs and interests of weaker states when in so doing they do not diminish the dominant position of powerful states. From a realist perspective, it follows that critics who argue that the international institutions do not work for the interests of poor and developing countries are correct. However, the realists are equally certain that those protesting about this will have little impact.

This interpretation of international institutions is rebutted not only by institutionalists, but by those who delve into the ways ideas, beliefs, and interactions shape the behaviour of states. In an earlier section, we mentioned constructivists.

Constructivists reject the idea that institutions reflect the 'rational' calculations of states either within inter-state competition (realists) or as part of a calculation of longer-term economic advantage and benefits from cooperation (institutionalists). In fact, what constructivists reject is the idea that states' interests are objectively definable and fixed. Instead, they argue that any one state's interests are affected by its **identity** as a state and that both its interests and identity are influenced by a **social structure of interactions, normative ideas,** and beliefs. If we cannot assume that states have a particular identity or interest prior to their interactions, then the institutionalists are wrong to assume that institutions emerge as rational responses to the needs of markets, trade, finance, and the like. Equally, the realists are wrong to assume that institutions can only be reflections of power politics. To quote constructivist Alex Wendt, 'anarchy is what states make of it' (1992). In other words, identities and interests are more fluid and changing than realists permit. Through their interactions and discourse, states change and these changes can reflect in institutions.

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

Key Points

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

Conclusion

Globalization increases the challenges faced by all actors in the world economy: states, firms, **transnational actors**, and international organizations. Strong states are trying to shape institutions to manage financial crises, powerful NGOs, and globalizing firms. Weak states are trying to survive increasingly precarious and changeable economic circumstances. Common to all states is the search for greater stability and predictability, although governments disagree over how and where this should be achieved. One layer of governance this chapter has not examined is that of regional organizations and institutions (see Ch. 26). The fact that in recent years virtually every state in the world has joined at least one regional trade grouping underscores the search for new ways to manage globalization. At the same time, **regionalism** highlights