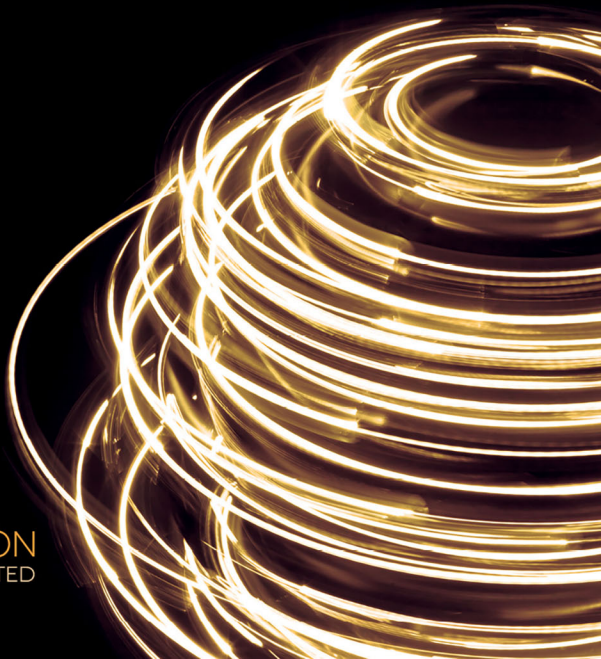


GLOBAL POLITICAL ECONOMY

EVOLUTION & DYNAMICS

ROBERT O'BRIEN & MARC WILLIAMS

FIFTH EDITION
REVISED AND UPDATED



Global Political Economy

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GLOBAL POLITICAL ECONOMY

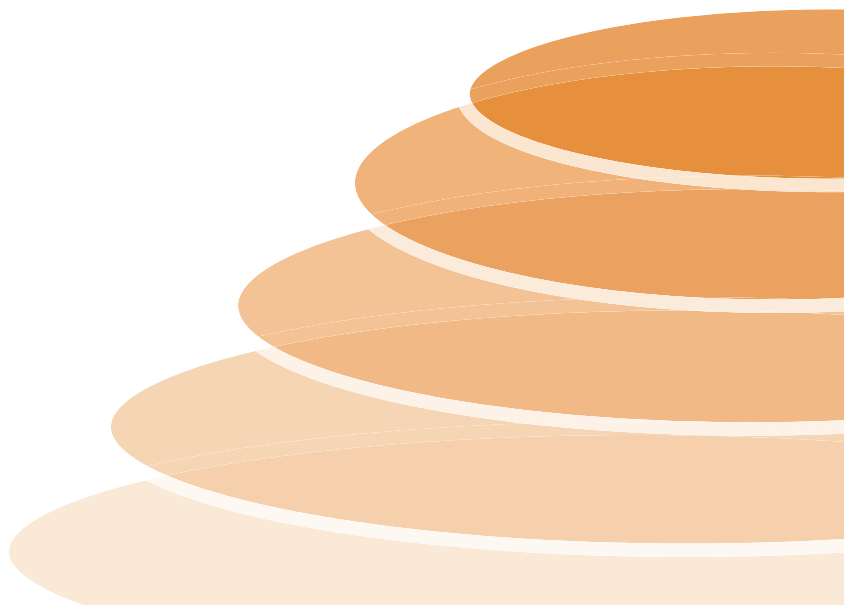
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ROBERT O'BRIEN & MARC WILLIAMS

5TH
EDITION



palgrave



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To our daughters

Isabella and Louisa

The world is yours to explore and improve

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Preface to the Fifth Edition

The aim of the book, as in previous editions, is to provide tools that will enable readers to understand and explain developments in the global political economy. As a result, the main structure of the book remains unchanged from previous versions. This structure – a discussion of theoretical perspectives and methods, a survey of the historical evolution of the world economy, and exploration of key frameworks and structures of the global political economy – has proved successful. Nevertheless, recognizing the importance of contemporary events, we have revised chapters to take account of recent significant changes in the global political economy since the fourth edition was published in 2013.

It has been a pleasure to continue working together to produce this fifth edition of our textbook. Our joint efforts are aided by many others. We would like to thank the anonymous reviewers of this and previous editions who provided detailed and helpful suggestions. A number of people were generous in responding to surveys

and questions about the book. We have greatly benefited from their comments, even if we are not able to respond adequately to all the advice. We also owe an ongoing debt to present and former colleagues and students at the universities of Sussex, New South Wales and McMaster. Numerous instructors and students at other universities have also provided helpful feedback. Our textbook now also appears in Greek and Chinese translations and we thank the publishers, students and academics in those countries interested in our work. Finally, thanks go to Steven Kennedy who has now retired from the publishing industry, but who was instrumental in the initiation of this text and its subsequent editions. We have enjoyed working with his successor, Stephen Wenham. Although we greatly appreciate everyone's help, the responsibility for errors remains ours alone.

ROBERT O'BRIEN, DUNDAS
MARC WILLIAMS, SYDNEY

List of Abbreviations

APEC	Asia-Pacific Economic Cooperation	ICT	information and communications technology
ASEAN	Association of Southeast Asian Nations	IEOs	international economic organizations
BIS	Bank for International Settlements	ILO	International Labour Organization
BRICS	Brazil, Russia, India, China, South Africa	IMF	International Monetary Fund
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women	IMS	international monetary system
COP	Conferences of the Parties	IPE	international political economy
DDA	Doha Development Agenda	IPR	intellectual property rights
ECB	European Central Bank	IR	international relations
EEC	European Economic Community	ISI	import substitution industrialization
EOI	export-oriented industrialization	IT	information technology
EPZ	export processing zone	ITO	International Trade Organization
ERM	exchange rate mechanism	LDC	least developed country
EU	European Union	MAI	Multilateral Agreement on Investment
FDI	foreign direct investment	MDGs	Millennium Development Goals
FOC	flag of convenience	MDRI	Multilateral Debt Relief Initiative
FSF	Financial Stability Forum	MERCOSUR	Southern Common Market
G5	Group of 5	MFA	Multifibre Agreement
G7	Group of 7	MFN	most favoured nation
G8	Group of 8	NAFTA	North American Free Trade Agreement
G20	Group of 20	NATO	North Atlantic Treaty Organization
G77	Group of 77	NGOs	nongovernmental organizations
G90	Group of 90	NICs	newly industrializing countries
GATS	General Agreement on Trade in Services (WTO)	NIEO	New International Economic Order
GATT	General Agreement on Tariffs and Trade	NTBs	non-tariff barriers
GCC	global commodity chain	OECD	Organisation for Economic Co-operation and Development
GDP	gross domestic product	OPEC	Organization of Petroleum Exporting Countries
GHG	greenhouse gas	PPMs	process and production methods
GNP	gross national product	R&D	research and development
GPE	global political economy	RTA	regional trade agreement
HDI	Human Development Index	S&D	special and differential treatment
HIPC	heavily indebted poor countries	SAPs	structural adjustment programmes
HIV/AIDS	human immunodeficiency virus/acquired immunodeficiency syndrome	SARS	severe acute respiratory syndrome
IBRD	International Bank for Reconstruction and Development	SPS	Sanitary and Phytosanitary Measures
ICFTU	International Confederation of Free Trade Unions	TNC	transnational corporation
		TPP	Trans-Pacific Partnership Agreement
		TRIMs	Trade-Related Investment Measures
		TRIPS	Trade-Related Aspects of Intellectual Property Rights

TTIP	Transatlantic Trade and Investment Partnership	UNDP	United Nations Development Programme
UN	United Nations	UNFCCC	United Nations Framework Convention on Climate Change
UNCED	United Nations Conference on Environment and Development	UNHCR	United Nations High Commissioner for Refugees
UNCHE	United Nations Conference on the Human Environment	UNICEF	United Nations Children's Fund
UNCTAD	United Nations Conference on Trade and Development	WHO	World Health Organization
		WTO	World Trade Organization

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Introduction

The aim of this textbook is to provide an accessible introduction to the study of international political economy (IPE). In pursuit of this aim, it follows two strategies that distinguish it from many other IPE textbooks. First, it adopts a historical approach to the study of IPE and offers students, the interested public and scholars a broad overview of how the modern global political economy has come into being. Instead of beginning with an analysis of contemporary global political and economic structures, the book seeks to provide an easily accessible but brief history that draws out important factors in the creation of our present situation. In our teaching, we have found that the best way for students to appreciate the nuances of the present is to expose them to the origins of political economy practices of the past. This is even more vital as we move from a world dominated by the US and Europe to a more multilateral future. Second, the book seeks to move beyond the repetition of the three dominant theoretical perspectives (economic nationalism, liberalism, Marxism) on IPE as a framework of analysis. It seeks to reflect both the developments in IPE scholarship in the past 30 years and the main debates between orthodox and heterodox scholars through attention to a broad range of themes, issues and perspectives in IPE. Unorthodox or heterodox approaches to IPE have become much more developed since the first wave of IPE texts in the 1980s by Spero (1981), Gilpin (1987), Strange (1988) and Gill and Law (1988). Ecological, feminist, neo-Gramscian and poststructural approaches now compete with traditional perspectives and shed new light on old problems. Central to our strategy is a framework that integrates material and ideational aspects of IPE.

PLAN OF THE BOOK

The text is divided into three parts. Part 1 examines key theories, locates the field in the broader social sciences and considers important methodological issues (Chapters 1 and 2). The complexities of the global political economy cannot be properly understood through a study of the 'facts' without recourse to theories of IPE. Because the meaning and impact of economic and political change are controversial and contested, Chapter 1 provides an introduction to the traditional competing perspectives in IPE. Economic nationalism, liberalism and Marxist/critical theories are introduced, with particular attention to how these theories highlight different actors, dynamics and views on cooperation and conflict. In each case, the work of a prominent proponent of these approaches (Susan Strange, Robert Keohane, Robert Cox) is showcased to highlight how theoretical perspectives can be developed and deployed. The chapter concludes by offering a summary of contending perspectives. Chapter 2 locates IPE among a range of disciplines – economics, political science, political economy and international relations. It considers the methods by which IPE is studied, such as case studies, rational

2 Introduction

choice, institutionalism and constructivism. An example of how one academic (John Ruggie) furthered a particular method in his writings and his work in the UN is provided. The chapter concludes by considering the direction of IPE theory today and outlining the book's own theoretical approach.

Part 2 (Chapters 3–5) considers the evolution and eventual domination of a European-based world economy. Chapter 3 provides an overview of key historical processes that led to the transformation of regional economies and the beginnings of the creation of the contemporary global economic system. It is organized into two main sections. The first contrasts various regional political economies – the Middle East, China, India, Africa, the Americas and Europe in the early 15th century. The second charts the expansion of a European-centred international political economy into other areas of the world, namely Africa, the Americas and Asia. It stresses the variety of patterns of interaction including slavery, genocide, war and trade, and assesses the varied pattern of European–non-European interaction. Chapter 4 examines the rise and fall of a liberal world system from 1800 until 1945. It begins by looking at the domestic and international basis of British power in the mid-19th century, the development of the Pax Britannica as a structure of international governance and the rise of imperialism in the 19th century. It concludes by analysing the descent of Europe and the world into war and depression. Chapter 5 turns its attention to the post-1945 era. The first section examines the Cold War era and the distinct western, communist and southern political economies. The second part turns its attention to the post-Cold War era from 1989 to 2015. The competition between forms of capitalism and accompanying state transformation, the impact of the information revolution and the proliferation of international organization as a form of global governance are highlighted.

Part 3 (Chapters 6–15) focuses on the recent dynamics of the global political economy. In one sense, the global political economy can be treated as a single whole, as we do in Part 2 of this book, but in another sense it is also composed of various structures or frameworks, each with its own set of actors, processes, institutions and rules. Of course, many actors participate in more than one framework and there are linkages between them. Nevertheless, in common with standard texts in economics and political economy, we have classified the diverse practices in the world economy into

certain key frameworks. We do not claim that any single framework is dominant, but we do suggest that the ten frameworks (trade, production, finance, labour, gender, development, environment, ideas, security and governance) analysed in this book constitute critical spheres of activity in the world economy.

The argument in each chapter in Part 3 is divided into four sections – definitions, theoretical perspectives, major developments and key issues. The section on definitions provides an introduction to some of the key terms and concepts used in analysis of the particular framework. The aim here is not to proffer definitive definitions but rather to discuss some of the key issues pertinent to an understanding of the framework. The theoretical perspectives section is important in raising key issues related to the normative elements of the global political economy framework. It shows the importance of knowledge in the construction of frameworks or structures in the global political economy. In our analysis, knowledge and knowledge claims are co-constitutive parts of the framework. In other words, knowledge is internal and integral to the structure rather than an external set of considerations. What counts as knowledge is not secondary but rather a central feature of the political economy framework. The beliefs that actors hold about cause and effect relations will influence the actions they will take. Within the world economy, states, firms, international organizations and social movement actors have conflicting views about the issues under scrutiny. In keeping with the historical focus of this book, the section on major developments provides an overview of key changes within the particular framework in the period since 1945. Finally, in each chapter we focus on three current issues (with exception of the finance chapter, which looks at four). There are other equally important issues that cannot be addressed in each chapter, but we have chosen ones that combine topicality with relevance to the evolution of the global political economy and contrasting IPE perspectives.

GLOBALIZATION

Writing at the beginning of the 21st century, it is impossible to ignore the phenomenon of globalization. An intense debate currently exists between proponents and opponents of what may be termed 'globalization

studies'. The book enters the globalization debate through a number of its concerns. One of the central issues of contention in the controversy over globalization is that of historical evidence. In delineating the scope, nature, depth and breadth of change in the global economy this book contributes to this debate. Moreover, insofar as globalization is a process of historical change rather than a specific condition, the evidence here contributes to an assessment of this process. Second, in charting the evolution of the modern state, the book confronts a central issue in the globalization debate. We reveal the historical development of the modern state, and consequently challenge arguments that present essentialized portraits of the state.

Our analysis in Part 3 is informed by the evolving nature of globalization. We believe that the intensification of globalization since the early 1970s has changed

the world political economy from an international to a global undertaking. While there are some who suggest that talk of globalization is overblown (Hirst and Thompson, 1996), we are of the view that the decreasing significance of time and space as barriers to human interaction is having a profound impact on the organization of production, the exchange of products and services, the circulation of finance, the gendered division of labour, the possibilities for development, the ecology of the planet, the transmission and power of ideas, the pursuit of security, the mobilization of political forces and forms of national and international governance. The spread of economic relations worldwide has had a significant impact on how people live their lives and how governance is practised. Our book explores these issues in further detail in the following chapters.

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PART I

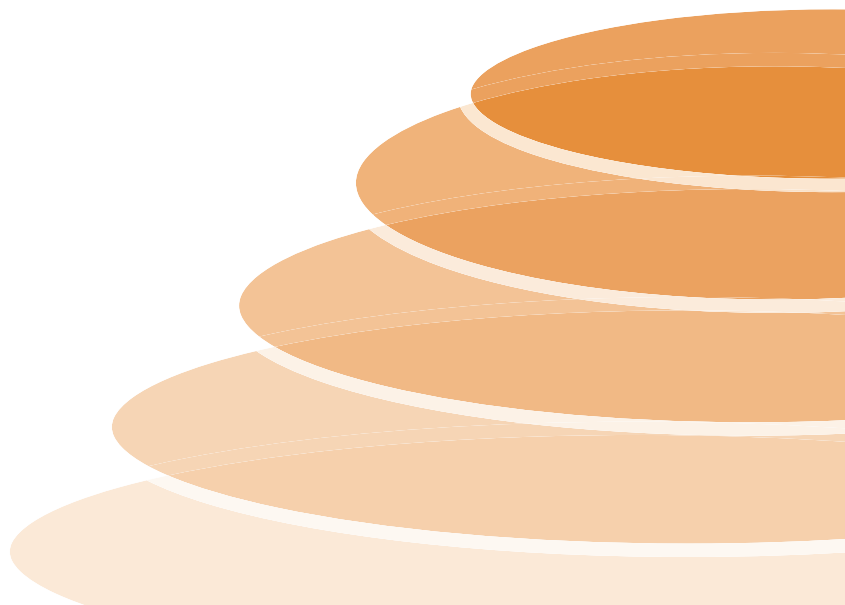
THEORETICAL PERSPECTIVES

● Chapter 1

Theories of Global Political Economy

● Chapter 2

International Political Economy and its Methods



Theories of Global Political Economy

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In its present form, the field of international political economy (IPE) or global political economy (GPE) is a relatively new undertaking at universities. This chapter introduces readers to three of its main theories. Chapter 2 gives readers an overview of the relationship of IPE to other fields, considers some of the methods used to study IPE and examines the future directions of GPE theory.

UNDERSTANDING THE GLOBAL POLITICAL ECONOMY

During 1996 and into 1997, a small number of investors and currency traders began to have doubts about whether Thailand's economy would be able to continue its record of remarkable growth. Fearing a reduction in economic prosperity and profit, some of these investors began to withdraw their money and investments. The outflow of money forced the Thai central bank to devalue its currency, the baht. This began a process which was later called the 1997 'Asian financial crisis'. By the time the crisis had run its course, several Asian countries experienced economic depression, the government of Indonesia was overthrown, countries previously labelled economic miracles, for example South Korea, were forced to seek loans from the International Monetary Fund (IMF) and the viability of the international financial system was called into question.

Although the 1997 Asian financial crisis was clearly a significant development in the global political economy, it was not immediately apparent what caused the events, what were its most significant aspects or what lessons might be drawn from the crisis to prevent a similar event from occurring. Indeed, a number of different stories are told about the crisis (see Table 1.1). One story, the liberal story, locates the causes of the crisis primarily in the financial policies followed by Asian states (McLeod and Garnaut, 1998). This view suggests that resources were directed to inefficient uses because of corrupt business practices and political influence over financial institutions. The term 'crony capitalism' was developed to capture this inappropriate model of political economy. The lesson to be drawn from the crisis is that financial markets will eventually punish economic activity which violates or ignores liberal economic principles. The solution is for developing countries to have more transparent financial practices and follow a more liberal economic model.

A second story stresses the significance of state power in creating and exploiting the crisis (Weiss, 1999). In this view, the problem arose because developing countries liberalized their economies prematurely and allowed large amounts of money to flow into and out of their countries too quickly. This undermined the

Table 1.1 Interpretations of the Asian financial crisis

	Liberal	State power	Critical
Causes	Crony capitalism, lack of transparency	Overrapid liberalization, reduced state capacity to regulate	Predatory liberalism, power of financial interests, systemic flaws
Key issue(s)	Corruption, lack of liberal economic practices	Clash of Anglo-American versus Asian models	Human suffering caused by financial collapse
Lessons	Increase transparency and good practice in developing countries	Limit financial speculation through state policies	Reform international financial system, defend national system

East Asian model of political economy and caused a crisis. This approach would stress how the US used the Asian crisis as an opportunity to force some states to restructure along lines that benefited American business. During the crisis, Asian states attempted to counter American initiatives at the IMF and to continue to resist the undermining of their particular form of capitalism (Higgott, 1998). The lessons from the crisis are that states need to be careful about liberalizing their economic activity and must pay attention to guarding their national interest.

A third story (critical) focuses on the role of US private business interests and the US government in creating the conditions for a financial collapse. It suggests that the US government pressured developing states into liberalizing their economies because this suited the interests of the US Treasury and leading financial firms on Wall Street (Wade and Veneroso, 1998). Once the crisis took place, the same interests pressed the IMF to demand that Asian economies restructure in a way that would open markets for US firms. This story also stresses the high degree of suffering caused by the financial collapse and the fact that its costs were unevenly distributed. For example, the collapse of the Indonesian economy pushed millions further into poverty, but left wealthy financial interests in developed countries relatively untouched. In this view, the international financial system facilitates the rapid movement of money between countries and contributes to the recurrence of financial crisis in many parts of the world (Walton, 2002). Action needs to be taken to curb financial speculation, such as a tax on large short-term foreign exchange transactions. States should also consider restricting the ability of investors to move their funds abroad rapidly.

This brief example of the Asian financial crisis demonstrates that the same event can be analysed in several different ways. Indeed, most major

developments are interpreted through competing explanations. Facts do not exist independently of explanatory frameworks. Facts are pieces of information that are thought to correspond to reality and be true, but the way in which they are perceived and judged is influenced by theory. In order to make sense of the world and to enable us to take constructive action, humans develop theories to help determine which facts are most important and what significant relationships there are between different events. Theories are used for a variety of purposes:

- they can prioritize information and allow individuals to turn their attention to the most important issues
- they can be used to make predictions about the future so that action can be taken to prepare for upcoming events
- they can be used to plan action or mobilize support for particular action

Every person utilizes theory to run their life even if they do not engage in explicit theorizing. Actors in the global political economy and those studying it use a variety of theories for a variety of purposes. Some people are interested in prediction. For example, they would like to be able to predict what type of monetary system would lead to stable economic growth, or to predict the likelihood of war between democratic states. Others believe that prediction is nearly impossible because so many factors come together to influence events. These people are more likely to use theory in an attempt to understand the world rather than to predict what will happen next.

In this book, we use and describe a number of theories to guide us in understanding the world. The development of IPE is often presented as a debate between three contending schools of thought,

paradigms or approaches. Some commentators refer to contending paradigms, others to different schools of thought and yet others to competing approaches. It does not really matter for our purposes whether they are seen as theories, paradigms, schools of thought or approaches. The central point is that three main contending perspectives have been used to explain developments in the global political economy. Although analysts distinguish between these three approaches, there is a wide variety of thought within each approach and much work in IPE draws on more than one of them. In addition, there are a number of other approaches, such as environmentalism, feminism and poststructuralism, which contribute to the study of IPE. These will be introduced later in the text. Let us begin by looking at the oldest approach – economic nationalism.

THE ECONOMIC NATIONALIST PERSPECTIVE

One school of thought brings together analysts who focus on the role of the state and the importance of power in shaping outcomes in the international political economy. These theories stress the importance of the interest of the nation or the state in understanding activity in international relations (IR). This grouping is variously termed ‘mercantilist’, ‘neomercantilist’, ‘statist’, ‘state-based theory’, ‘power politics’ or ‘economic nationalist’. The equivalent in IR theory is realism. We use the term ‘economic nationalism’ to refer to this perspective because at the centre of such analyses is the protection of the national unit. The underlying economic argumentation may alter, for example, but the objective of economic intercourse remains the same.

The origin of this school of thought can be traced back to the emergence and expansion of the nation-state in Europe in the 15th century. Mercantilism was a doctrine of political economy that governed the actions of many states until the liberal revolution in Britain in the mid-19th century. Mercantilists believed that there was only a limited amount of wealth in the world and that each state must secure its interests by blocking the economic interests of other states. This is known as a ‘zero-sum game’. One state’s gain is another state’s loss. From the 15th until the 19th centuries, European states strove to establish overseas empires that would be as

self-sufficient as possible. Trade between neighbouring colonies of rival empires was discouraged.

Two famous advocates of mercantilist theory were Alexander Hamilton ([1791]1991) and Fredrick List ([1885]1991). Hamilton was a founding father of the United States. Writing in the 1790s, he urged Americans to protect their manufacturers from foreign competition so that they could industrialize and increase their power. Almost a hundred years later, List argued that Germany should industrialize behind trade barriers so that it could catch up with the economic might of Great Britain. He believed that only the economically strong advocated free-trade policies because other states would lose out in the ensuing competition. While Great Britain led the Industrial Revolution in the early 1800s and opened up its borders to free trade, both Germany and the US followed more economic nationalist policies.

One central question for students of the contemporary global economy relates to the persistence of mercantilist thought. It could be assumed that an economic perspective based upon unrivalled state power is of limited relevance in a world characterized by globalization. While this may be correct, contemporary economic nationalist thought should not be dismissed as some atavistic throwback to an earlier era. It reflects, on the one hand, an acknowledgement that states remain at the centre of power within the global political economy and, on the other, that there is an intimate connection between power and wealth. Economic nationalist thinking, whether it is termed ‘neomercantilism’ or ‘statism’, remains important in both analysis and practice in the contemporary global economy. For example, states may protect strategic industries against foreign rivals or attempt to export more than they import for long periods of time. Japan has been accused of being a mercantilist state because in comparison with other advanced industrialized countries its economy is relatively closed. Even states that are generally seen to follow liberal policies, such as the US, will pursue economic nationalist policies in particular sectors. For example, the US uses defence spending to support its commercial aerospace industry.

Key actors

Economic nationalist or mercantilist theories view the state as the main actor in the global political economy.

A major assumption of economic nationalists is the primacy of the political over other aspects of social life. Statist writers focus on the group (the state or nation) rather than the individual. Economic nationalist thought begins from two major assumptions. The first is that the inter-state system is anarchical and it is therefore the duty of each state to protect its own interests. At the core of the various historical versions of economic nationalism is the belief that an economic community persists and acts for the good of all its members. The second assumption concerns the primacy of the state in political life. As the state is the central instrument through which people can fulfil their goals, it follows that the state remains the preeminent actor in the domestic and international domains. Economic policy should be used to build a more powerful state.

From this perspective, the state is prior to the market and market relations are shaped by political power. Economic nationalist thought is both descriptive and predictive. Descriptive economic nationalists maintain that production, consumption, exchange and investment are all governed by political power. Markets are not 'natural'; they can only exist within a social context. For mercantilists, political needs and purposes are seen largely as being achieved through the form of the state. It remains at the core of social life. But economic nationalists move beyond description and also provide policy advice. Given their analysis of the dynamics of political economy, such advice is geared towards supporting and maintaining state power.

Economic nationalists recognize the importance of market-based actors such as firms, but subordinate their importance to that of the state. Within this perspective, the economic power of transnational corporations (TNCs) is acknowledged, but the overall power of such firms remains limited. In the end, firms are subject to the dictates of states. Insofar as firms have become important economic actors, this is only because states have abandoned regulation or lessened controls on the movement of capital. When firms encounter economic or political trouble, they quickly turn to their home states for protection.

Key dynamics

From an economic nationalist perspective, international political economy is constituted through the actions of rational states. If international relations are

conceived as a struggle for power, international political economy is a struggle for power *and* wealth. The determination of a state's fate resides in its ability to ensure that its citizens reap advantages from international production and exchange. Market relations are important indicators of power and wealth but the market is governed by the activities of states. Economic activity is subordinate to political goals and objectives. Furthermore, economic actors are subject to political authority. The consequence of the salience of the state is that international economic relations are international political relations. The global economy in this view is subordinate to the international political system.

IPE scholars working in this perspective argue that the nature of the global economy reflects the interests of the most powerful states. For example, Krasner (1976) has suggested that systems of free trade are most likely when a single power dominates the international system. This dominant, or hegemonic, power is needed to provide leadership and absorb the short-term costs of maintaining a free-trade regime. Analysts such as Gilpin (1981) have argued that changes in the distribution of power between states increase the chances of conflict in the international system. Because of this view, considerable time can be devoted to contemplating the rise and fall of great powers (Gilpin, 1987; Kennedy, 1987).

In the heated debate over globalization, both defensive and sceptical economic nationalist perspectives can be heard. The defensive posture arises from a fear that globalization may prevent state actors from fulfilling their goals. This is, of course, merely the continuation of the long-held suspicion of economic exchange held by economic nationalist thinkers. Unlike proponents of free trade, economic nationalists believe that the gains from trade are unequally distributed and favour those with greater economic and political power. Thus, defensive economic nationalists can recognize globalization as a threat and seek to counter its impacts. On the other hand, sceptical economic nationalists reject many of the current liberal arguments about globalization. They contend that globalization is largely a myth and that the power of the state remains undiminished. Since economic actors are subordinate to political power, these analysts argue that the policy environment conducive to globalization has been created by states. It therefore follows that states can alter this environment by changing their policies. Moreover,