Chapter 16

Global political economy

NICOLA PHILLIPS

Framing Questions

- **How should we think about power in the contemporary global political economy?**
- **How does International Political Economy (IPE) help us to understand what drives globalization and what is likely to be its future?**
- **What does IPE tell us about who wins and who loses from globalization?**

Reader's Guide

International Political Economy (IPE) is a tremendously rich, exciting, and relevant field of study. It builds on varied theoretical foundations and covers a huge empirical terrain. Its vibrant debates centre on questions about power, asking what forms power takes in the global political economy, who or what exercises power, and with what political, economic, and social consequences. Wherever one looks, the developments in the global political economy which shape the world we live in and most affect our everyday lives speak directly to the themes and insights of IPE.

This chapter provides an introduction to the field and what it offers in the study of contemporary globalization. It begins with an overview of IPE's theoretical contours and how the major approaches in the field have evolved. The chapter then focuses on two core debates in IPE: what drives globalization; and who wins and who loses as a consequence. In discussing the first of these debates, it explores how globalization has unfolded and the different ways in which international political economists have understood the driving forces behind these processes. In discussing the second, it looks in more detail at the consequences of globalization, delving into IPE debates about inequality, labour exploitation, and global migration. It ends with a reflection on the future of globalization, in the context of the rise of nationalist politics in some parts of the world, including the United States, since the mid-2010s.

Introduction

IPE takes as its point of departure a very simple premise: that it is impossible to understand the evolution of world affairs without understanding how the political and the economic are intertwined. Perhaps more than any other field, IPE has staked a major claim to the study of 'globalization' (**see Box 16.1**), seeking to understand the array of processes, trends, actors, and arenas that the term encompasses. But in many ways, the field of IPE also developed as a *response* to the processes of structural change that were associated with globalization, building on well-established theoretical traditions in International Relations (IR), political science, and political economy, among other disciplines, in order to understand the changing global political economy.

Box 16.1 IPE or GPE?

A tussle has emerged in the field concerning what it should be called. International Political Economy is the most used label across scholarly communities, and provides a common vocabulary for the field, but it is clearly problematic. Many rightly view the 'I' to be misleading. The field is not concerned with relations among states (the 'inter-national'); rather, all of the processes of structural change are better considered to be global in scope, involving non-state and private actors as well as, or independently of, nation-states. The label Global Political Economy (GPE) has therefore found favour in some circles as an alternative, as it is deemed to capture more of the field's thematic and theoretical substance.

Some people go further to argue that both 'I' and 'G' are essentially unnecessary. All political economy is, by definition, international or global—one only has to go back to the classical thinkers in political economy, such as Adam Smith or Karl Marx, to understand that. Attaching 'I' or 'G' also draws inappropriate distinctions between this field and the field of *comparative* political economy (CPE), which has been associated with the field of political science rather than IR. In fact, we need both comparative perspectives (focusing on national and regional dynamics) and global perspectives in order to understand the contemporary world. 'Political economy', it is argued, is therefore enough. However, disciplinary boundaries are powerful things, and CPE and IPE unfortunately often remain somewhat distinct from one another.

Lastly, the labels also need to be used as descriptive nouns, rather than as the names of scholarly fields. We have already referred several times to *the* global political economy, connoting the real-world context defined by the political-economic processes and actors that are of interest. To avoid confusion, this chapter adopts the acronym IPE to refer to the field, and the noun 'the global political economy' to refer to the complex arena of change which is its focus.

The central questions in IPE revolve around the concept of power. Some accounts of the field's remit emphasize the relationship between power and wealth, which opens up a fascinating set of questions about how power is exercised and by whom, and with what consequences, in the contemporary global political economy. Others emphasize the relationship between public and private forms of power. Susan Strange, in one of the earliest statements about what the field of IPE should look like, framed this influentially as the relationship between 'states and markets' (Strange 1988). Many people, rightly, came to view this as too restrictive a definition, as states were not the only actors of significance in the global political economy. One modified definition saw IPE as being about 'the interrelationship between public and private power in the allocation of scarce resources' (Ravenhill 2014: 18)—a useful way of thinking about the broader scope of IPE which this chapter employs. For our purposes, public power can be understood as the authority concentrated in state institutions and actors, and by extension in state-led international organizations. Private power can be understood as the diverse forms of authority exercised by non-state institutions and actors, including firms and global markets, private regulatory bodies, non-governmental organizations (NGOs) (**see Ch. 22**), and social movements. The distinction between public and private power is inevitably blurred, and perhaps increasingly so. Many of the functions of public power are being assumed more and more by private actors and institutions, with important consequences for distribution and legitimacy in the global political economy.

IPE is not driven by a single, or even dominant, theoretical or methodological approach. Some strands of the field choose to define it as being concerned first and foremost with the study of institutions, and how institutions shape the possibilities and patterns of cooperation among states. Particularly in North America, institutionalist theories have been a major theoretical influence on the field. But this is not the full extent of IPE. Many other theoretical frameworks have been applied to study its subject matter, stretching across the conventional frameworks of liberalism, realism, and Marxism, and reaching deeply into newer theoretical currents and perspectives such as constructivism, feminism, and neo-Gramscian theory.

Likewise, IPE's rich thematic interests are generally considered to centre on the trio of trade, production, and finance. But they reach much more widely, touching on all of the big issues in today's global political economy, including development, inequality, the environment, and migration. We are still feeling the after-effects of the global financial crisis, the most significant economic crisis since the Great Depression of the 1930s, which began in 2008 with the collapse of the US financial firm Lehman Brothers and was accompanied by a parallel debt crisis that engulfed southern Europe around the same time. Europe continues to grapple with the impact of an unprecedented refugee crisis which brings into sharp relief the political-economic dynamics of migration and security, at the same time as the United Kingdom's proposed exit from the European Union (EU) has raised existential questions about the future of the bloc and its integration project. China continues its rise to global economic dominance and increasing global political power, alongside a number of other 'rising powers', auguring a reorganization of the global order and the way it is governed. At the same time, significant economic and political turmoil in some of those economies, such as Brazil, has led to a questioning of the more excited rhetoric about the 'rising powers' (**see Ch. 5**). The escalation of protectionist trade policies by the United States since President Donald Trump took office in 2016, bringing with it fears of a 'trade war' between China and the United States, is contributing to renewed anxiety about the health and stability of the global economy. Political battles continue over the power of **transnational corporations** (TNCs), notably in such matters as taxation and labour conditions in global production. The global environment appears to be under relentless threat, as the Trump administration consistently undermines multilateral agreements and rejects climate change science, and the President of Brazil elected in 2018, Jair Bolsonaro, intends aggressively to roll back protection of the Amazon rainforest. The list of contemporary preoccupations for international political economists could go on and on.

Approaches to IPE

Introductions to IPE often refer back to the theoretical framing that Robert Gilpin set out in 1987, when the field was beginning to crystallize as a major subdiscipline of IR. In his now classic overview of the new field, he identified three main bodies of theory that underpinned the field: liberalism, Marxism, and nationalism (sometimes also called realism) (**see Chs 6, 7, and 8**). These three labels quickly became a standard categorization of approaches, and often still provide the starting point of undergraduate and postgraduate syllabi in IPE.

More recently, the field has evolved in more diverse directions, embracing a wide range of bodies of theory to aid its task of understanding the distributive consequences of the interplay between private and public power. These 'newer' perspectives include social constructivism, evolving forms of rational choice theory and institutionalism, and varied directions in Marxist and critical thought, such as neo-Gramscian theory, feminist theories, and poststructuralism. Recalling the definition of IPE outlined at the start of the chapter, each of these bodies of theory brings to bear a different understanding of the nature of power, the relationship between public and private power, and the consequences for the distribution of material and power resources.

The liberal tradition in IPE builds on ideas about free markets and the view that markets are the most efficient mechanism by which resources can be allocated. States are not invisible in this tradition, but their role should be limited to securing the conditions in which markets can operate as freely as possible, and correcting some of the undesirable consequences of their workings. A minimal role for the state builds on the idea that governments are subject to pressures from powerful interests in society, seeking advantages or 'rents' from government policies, and therefore that governments potentially distort the efficient operation of markets. The emphasis on both states and interests runs through contemporary neoliberal theories of IPE. Institutionalism, as noted above, is concerned first and foremost with patterns of cooperation among states, and how the 'inter-national' dynamics of power, refracted through the creation of national and international institutions, shape outcomes in terms of collective action among states (Keohane 1984; Milner 1997). Rational choice theory, by extension, is concerned with the strategic decisions made by actors in the global political economy; it assumes that actors are 'rational' in their decision-making processes, possess fixed interests and preferences, and adapt to particular structures of incentives (Aggarwal and Dupont 2014).

Conversely, nationalist or realist perspectives on IPE focus closely on 'inter-national' relations among states and see the global political economy as being shaped by competition among states to maximize their power and security (Krasner 1976). Their interest in political economy centres on economic policy decisions by states that are assumed to be pursuing the goals of economic nationalism and independence. However, they reserve particular attention for the role of hegemonic power in the global political economy, focusing on whether and how one hegemonic state can create and enforce rules to maximize the stability of the system, often through the creation of institutions.

By comparison, Marxism and its neo-Marxist offshoots are concerned with the system—the *structure* of the global political economy—which is defined by capitalism. Capitalism is understood to be about competition between interests, as in liberal and nationalist theories, but interests here are understood not through the primary prism of states and governments, but rather as relating to class. The dynamics of the global political economy are, in this sense, about the conflict inherent in capitalism between those who own the means of production and those who are oppressed as a means of generating 'surplus value' or profit in the system. Neo-Marxist theories associated with the schools of dependency theory and world systems theory, which were particularly influential in the 1960s and 1970s, transposed these insights to a global level, arguing that the global economy was divided into a 'core' and a 'periphery', and that class conflict was international or global in scale (Frank 1967; Dos Santos 1970; Wallerstein 1979).

More recently, Marxist perspectives have been married with insights from the Italian philosopher Antonio Gramsci (R. Cox 1981, 1987); this strand of theoretical thinking has become particularly influential as a part of a broader universe of 'critical' IPE. This body of work has advanced the core Marxist concern with the power structures that underpin capitalism, but also placed more emphasis than in previous phases on the 'ideology', or sets of ideas, that themselves form a part of the structure of the global political economy.

In this regard, these critical currents in IPE share some terrain with social constructivist approaches (Abdelal, Blyth, and Parsons 2010). The core question here concerns how ideas shape outcomes in the global political economy. One strand of this research focuses on questions of ideology, and how dominant ideologies—such as the free market ideas associated with neoliberalism—themselves structure the world around us and the principles or 'logics' by which it functions. Other strands focus more on how ideas inform the decisions which public and private actors take, and more specifically the interests that define their preferences. Whereas Marxist theorists would see these interests as being defined by class or position in the capitalist structure, and rational choice theorists would ascribe them to incentive structures that actors face, social constructivists are more interested in the ideational dimensions of interest formation: how individual perceptions and cultural influences can combine to shape patterns of ideas, and, in turn, how particular sets of ideas become dominant in the global political economy, and with what consequences (**see Ch. 12**).

Feminist approaches to IPE bring many of these concerns together (Peterson 2003; Bakker and Silvey 2008). While theoretical orientations differ among feminist scholars, they are united in a focus on how the power structures, interests, and ideas that underpin the global political economy are fundamentally gendered in their nature and consequences. Other chapters in this volume highlight many of the questions that animate feminist theories of IPE, including the many dimensions of the 'gendered division of labour' (**see Chs 9 and 17**).

There are many other theoretical approaches to IPE and many other theoretical influences. It is not possible to survey them all in detail here, nor even to do full justice to the depth and richness of those mentioned above. However, this brief overview has highlighted two aspects of IPE. First, IPE has come a long way since its early conception as resting on the trilogy of liberalism, nationalism/realism, and Marxism. It has become a flag under which many ships have been able to sail, departing from different theoretical shores and traversing the expansive thematic waters that characterize the field.

Second, IPE is a highly diverse field; sometimes what divides the field can be more apparent than what unites it. Even so, IPE's principal approaches are united by a common set of theoretical and conceptual pillars. While very different, and placing their emphasis in dramatically different ways, it can be said that all of the above theories rest on three ingredients of the study of political economy—material capabilities, institutions, and ideas (R. Cox 1981). As the introduction to this volume discussed, each body of theory will paint these ingredients in different colours, will understand the relationship among them in different ways, and will produce different pictures of the outcomes of their interactions. But they stand as the core ontological building blocks of approaches to IPE, providing a useful starting point for exploring some of the field's main issues and themes.

Chapter 27

Global trade and global finance

MATTHEW WATSON

Framing Questions

- **Given the recent rise of populist nationalism and the associated retreat of liberal globalism, are the political premises from which global trade and global finance have been managed for so long now in terminal decline?**
- **Why is the global economy so good at allowing some people to own untold riches while many others have too little money to meet basic subsistence needs?**
- **Would the world be better off without the institutions of global economic governance?**

Reader's Guide

This chapter introduces students to important issues in the conduct of global trade and global finance. It shows that the two spheres are regulated by different governance institutions, but that disturbances in one can result in related disturbances in the other. This corresponds to one of the most widely cited definitions of economic globalization, in which globalization is understood as the increased sensitivity of one part of the world economy to events originating elsewhere. The chapter provides a brief outline of the increased turnover of trade and financial flows in recent decades. However, it is not immediately obvious that such flows are genuinely global in their geographical scope, because they appear to be heavily concentrated in those countries that are powerful enough to have shaped world economic relations to their own advantage. The remaining sections focus on the institutional history of the regulation of trade and finance. Once again, they suggest the significance of political power, demonstrating that a global elite has successfully imprinted its interests in prevailing institutionalized regulatory norms. This has generally overridden the search for systemic regulatory coherence, enhancing the degree to which difficulties in either trade or finance create knock-on problems in the other sphere. The recent rise of populist nationalism has challenged the dominance of the global elites, but its 'successes' will do nothing to enhance systemic regulatory coherence.

Introduction

The 1970s was an economically troubled decade for the advanced industrialized countries of the Western world. Growth rates fell substantially from their post-Second World War plateau, with unemployment rising to a level unseen since the **Great Depression** of the 1930s. State-led attempts to energize new growth failed to revive the economy, and instead governments paid the price for their well-intentioned policies in accelerating inflation. The political mood subsequently turned against government involvement in the economy. National controls on the free movement of capital, money, goods, **services**, and people were progressively eased, and the language of 'markets' began to dominate the way politicians talked about their economic priorities. International institutions were also given extra authority to deprive markets of their previously overwhelmingly national character and to superimpose an increasingly global logic in its place (**see Ch. 16**).

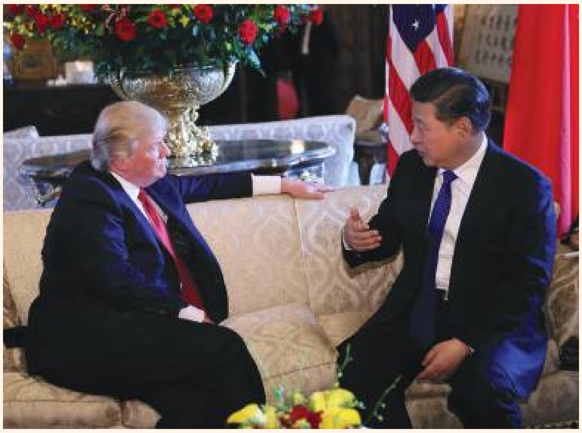
The 2010s has been a similarly troubled decade. Growth rates among the advanced industrialized countries have been more badly affected since the onset of the **global financial crisis** of 2007–8 than at any time in the 1970s. The nature of work has changed rather dramatically for many people, with the trend away from secure employment, labour rights, and workplace protection. The 'jobs for life' phenomenon now looks like an historical artefact of the so-called **golden age of welfare capitalism**, and wages have stagnated for around the bottom 40 per cent of earners in the Western world. As yet, however, it looks as though the response of global policy-makers has been to ask, 'Crisis? What crisis?' There have been no repeats of the public pleas of mea culpa from the 1970s, when policy-makers began to think through the process of challenging previously agreed economic certainties so that governance priorities could be systematically refashioned. The most important global economic opinion-formers have generally stuck to the old story that, in essence, markets know best. It was, of course, excesses of market ideology, the breakdown of market logic, and the malfunctioning of market institutions that led to the global financial crisis in the first place. It is not immediately obvious, then, why 'more market' remains the orthodox policy prescription of how to now put things right.

However, this should not be misread for the conclusion that absolutely everything has stayed the same politically in the crisis-hit countries. Almost without exception, those countries which experienced the economic shock of the global financial crisis have also recently witnessed the rise of populist politics domestically. Some of this—think of Syriza in Greece and Podemos in Spain—has projected a left-leaning politics of protecting the poorest, making sure that work pays enough for a dignified life for everyone, and forcing those who benefited from previous market excesses to pay for their own financial crisis. But most of it—think of the election of Donald Trump in the US, the UK vote to leave the European Union, the Front National candidate reaching the run-off for the presidency in France, the Alternative für Deutschland making a parliamentary breakthrough in Germany, the decimation of the mainstream parties in the Italian general election, and the very strong recent showing of anti-immigrant parties in Austria, Denmark, the Netherlands, Sweden, and Switzerland—has had a very different political face. This has been a populist nationalism which has harked back to its own perceived golden age: a time before globalization, when national society was a more authentic version of itself than it has subsequently become. In this new conception of the world, capital and money are to remain relatively unrestricted in their movement across national borders, goods also unless a well-targeted trade war is likely to prove popular with the electoral base (**see Case Study 27.1**), but people much less so (**see Chs 18 and 25**). The hallmark of this new politics is the stigmatization of immigrants and the rejection of any claims that can be made to move from one country to another if this is likely to dilute the perceived purity of the national community. It is around these questions, allied to their implications for the future of liberal globalization, that the biggest fractures in Western politics have recently opened up.

The globalization of trade and finance

The political cleavage between populist nationalists and liberal globalists is activated by different answers to the question of whether economic globalization has been beneficial domestically. However, significant disagreement remains in the academic literature about just how prevalent the trend towards genuine economic

Case Study 27.1 The Chinese currency and the US trade deficit



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In August 2018, Donald Trump broke with another of the conventions associated with his office. He became the first US president in a quarter of a century to accuse another country directly of using the levers of the state for the purpose of currency manipulation: 'I think China's manipulating their currency, absolutely' (Mason and Holland 2018). This simply repeated the populist nationalist message that he had used consistently when on the campaign trail. China is not playing fair by US workers, Trump claims, by using an artificially cheap yuan to undercut the price of US products.

It is difficult, however, to find any economist who agrees with Trump's diagnosis of the problem. Nonetheless, this remains an example of global political posturing of great interest, because it shows how actions in one sphere of global trade and finance can have implications in the other. The mammoth US trade deficit with China is not in dispute, but it can be politicized in many different ways. Trump's version of populist nationalism involves making symbolic gestures to a domestic workforce which has good reason to think that it has been ill-served by economic globalization in recent decades. His willingness to march his country into a trade war with China tells his electoral base that he wants to stick up for their interests by repatriating jobs that have previously been lost to overseas competitors. The announcement that the Chinese monetary authorities are deliberately keeping the yuan undervalued against the dollar is all the 'evidence' he requires to say that he has right on his side to continue pre-emptive action against China.

Unfortunately for Trump, though, the actual evidence points in the opposite direction. Throughout his candidacy and presidency so far, **futures market** trading has implied that the yuan is overvalued not undervalued. China has burnt through a considerable amount of its foreign exchange reserves to keep the yuan at a higher level than would have been the case under pure exchange rate floating. This is a rate that remains significantly higher than when the Chinese monetary authorities first allowed their currency to partially float in 2005. The removal of state support for the yuan would cause the price of Chinese merchandise goods to fall relative to US prices, thus providing Chinese producers with an enhanced competitive advantage and most likely widening the US trade deficit still further—the exact opposite of what Trump wants. China's on-going support for an overvalued currency is also a symbolic gesture. It is designed to facilitate the yuan's inclusion into the IMF's system of **Special Drawing Rights**. Although this is a purely honorary role, it would send the political signal that the yuan is now an international reserve currency increasingly on a par with the dollar and the euro.

Question 1: What does it say about the present state of domestic US politics that Trump's claim about Chinese currency manipulation continues to resonate despite having no obvious basis in economic reality?

Question 2: Why might China continue to pursue an overvalued yuan for political reasons, even though this operates against its producers' economic interests?

globalization is. The word 'globalization' has become synonymous with the time period of enhanced national market integration since the crisis of the 1970s, but it also tends to be used—with varying degrees of analytical precision—to describe the pattern of interdependent economic flows which has resulted (**see Chs 1 & 2**). There have certainly been large increases since the 1970s in the integration of national markets for both traded goods and financial flows, but this does not in itself mean that the ensuing market arrangements incorporate all countries of the world in any way evenly. As Held et al. (1999) argued 20 years ago, it is important to differentiate between the 'intensity' and the 'extensity' of supposedly global flows of trade and finance. Intensity measures reveal the degree to which national economic borders are now traversed by such flows: they indicate whether there are higher volumes of flows than previously, but remain silent on their geographical character. Extensity measures, by contrast, focus on the geographical dispersal of contemporary trade and finance: they ask not simply about overall volumes of flows but also whether they systematically incorporate more countries of the world. The distinction, then, is between the speeding up and the spreading out of flows of trade and finance. Somewhat confusingly, the single word 'globalization' is frequently used to describe both patterns, even though it would clearly be preferable to keep them analytically distinct.

What seems to have occurred in general is the emergence of particular globalization 'hotspots' centred on the most advanced industrialized countries, in which there has been a significant augmentation of cross-border economic activity. Intensity measures therefore appear to illustrate the essence of these changes better. They are captured in relation to trade by economists' so-called **gravity models**. Such models provide robust empirical corroboration for a very straightforward proposition: that trade flows are likely to touch down with a final consumer who lives closer to, rather than further away from, the place of production. Merchandise goods are much more likely to move between countries with similar levels of per capita income, and they are also cheaper to transport over shorter rather than longer distances. By contrast, financial flows are conventionally regarded to be 'weightless'. Even here, though, the concentration of advanced financial infrastructure in a limited number of world cities means that financial flows typically repeat the same established geographical patterns rather than create brand new connections of a truly global nature. Greater extensity of economic globalization *is* also apparent in some very important cases—for instance, the emergence of the BRICs economies and the continued rise of East Asia (**see Ch. 5**). However, many of the poorest countries of the world remain largely bystanders to the new structures of production and consumption. They thus appear to have little connection to the prevailing pattern of globalization hotspots, registering little in terms of either the intensity or the extensity of globalization.

Partly this is an issue of development, because the organization of cross-border economic activities has tended to focus only on the most advanced sectors of the world economy. Partly it is an issue of political asymmetries in the regulatory system for global trade and global finance, with the advanced industrialized countries keeping most of the economic gains from globalization for themselves. As other chapters in this volume address development issues (in particular **see Ch. 26**), this chapter instead focuses primarily on the regulatory principles on which global trade and global finance are today grounded. The aim is to highlight the means through which the balance of power in the inter-state system is imprinted on these two regimes. This will make it possible to conceptualize the tendency towards economic globalization as a clearly political process. The same basic conceptualization will also be necessary if the recent rise of populist nationalism continues unchecked and leads to significant subsequent *de*globalization (**see Case Study 27.1**).

The most frequently cited indicator of economic globalization is the eye-catching increase in world trade (**see Box 27.1**) since the 1970s. This reflects the successful constitution of ever deeper international markets for merchandise goods. The relevant increase is demonstrated best by looking at standardized figures for the volume of world exports, because this allows for meaningful direct comparisons to be made. Taking the 2000 figure as the baseline number of 100—which itself corresponded in value terms to approximately $8.6 trillion of world trade—this compares with standardized numbers of 22 for 1970, 37 for 1980, and 54 for 1990. In other words, in this take-off and early maturation stage of economic globalization, the volume of world exports grew by roughly a factor of 4.5 between 1970 and 2000, a factor of 3 between 1980 and 2000, and a factor of 2 between 1990 and 2000 alone. This signifies an upward trend that has only partly survived the fallout from the global financial crisis and the dawning of an era of new uncertainties. The overall value of world trade on merchandise goods stood at $16.0 trillion in 2016, the latest year for which complete records were available at the time of writing (September 2019)—or $16,000,000,000,000 when written out in full. This is up from $13.7 trillion in 2007, immediately before the onset of the global financial crisis (WTO 2008: 9), but down from $18.5 trillion in 2014, the current record (WTO 2015: 24). The standardized number for 2016, again using 2000 as the benchmark of 100, was 186, as compared with the all-time high of 215 recorded in 2014 (all figures calculated from WTO 2017).

Historical figures also show that the world economy, in general, was becoming more open to global trade from the 1970s onwards. The relevant indicator here is the ratio of growth in global trade to growth in global GDP. If the two numbers are exactly the same, and therefore the ratio is 1:1, all increases in world export demand are fully accounted for by the fact that the world economy as a whole is growing, not that it is becoming generically more open to trade. The WTO (2017: 18)

Box 27.1 What is international trade?

Simply stated, international trade occurs when one country's citizens produce a good that another country's citizens consume. There is consequently a geographical mismatch between the site of production and the site of consumption, with the good travelling across at least one national border to connect the producer economically with the consumer. The country producing the good for sale elsewhere in the world is the exporter; the country in which the good is eventually sold is the importer.

has calculated that, from 1945 to the present day, this ratio has averaged around 1.5:1 as a whole. The take-off period to economic globalization, 1970–2000, witnessed a ratio of 1.77:1, showing that increases in global trade were approaching double those of global GDP. Since 2000, however, the picture has been more mixed: well above 2:1 in good years for global merchandise trade, but averaging only around 1:1 since the global financial crisis. The most up-to-date figures, those for 2016, even dipped well below not only the long-term historical trend but also the post-global financial crisis trend, to 0.6:1. This shows the world economy becoming *less* open to trade and, therefore, for that year at any rate *less* globalized in intensity terms.

The trend for the changing extensity of trade globalization is even more difficult to evaluate and can be presented only on a case-by-case basis to conclude with any certainty that a particular country is experiencing a spreading out, as well as a speeding up, of its import/export activities. Extensity increases are more likely to happen the more deeply embedded a country is in a **regional trading agreement**. Yet even here the geographical pattern of the observed changes will almost certainly be more pronounced within the regional bloc than beyond its borders, as economists' gravity models suggest very clearly. Those borders in fact often present a good proxy for the outer limits of the extensity of global trade flows. North America, Asia, and Europe, with their deeply embedded regional trading agreements, accounted for 88 per cent of global trade in 2016 (WTO 2017: 13).

What, then, of financial flows? Most of the more remarkable changes in global financial markets since the 1970s do not require money to actually change hands. Therefore, they do not have a geographical character consistent with an explicit movement across space (**see Box 27.2**). Most financial markets today have an undeniably global component, insofar as advances in computer technology allow their trading activities to be accessed by anyone with a suitable network connection. Yet the trading itself typically takes place through highly capitalized and reputable counterparties—banks, insurance companies, hedge funds, professional investment bodies, pension funds, and so on—swapping giant IOUs. These are either added to or subtracted from their 'paper' position at the end of each day's trading. In this instance it is at most possible to talk about intensity measures.

We should be under no illusions, though, about just how significant trading flows on financial markets now are. The average daily turnover on world **currency markets** alone was $5.07 trillion in 2016—in longhand $5,070,000,000,000. This represented a fall of 5 per cent on the figure recorded in the previous triennial Bank for International Settlements report in 2013, but still more than a fourfold increase since it was first reported in 2001 that the symbolic figure of $1 trillion per day had been passed (Bank for International Settlements 2016: 9). This means that despite the very impressive increases in world merchandise trade under conditions of economic globalization, flows of global trade are nonetheless completely dwarfed by flows of global finance. The dollar value of currency market turnover alone is presently over 80 times higher than the dollar value of all countries' export activities in aggregate. Moreover, outstanding positions on currency markets are themselves only a fraction of those on **derivatives contracts**, the type of financial instrument to which banks found themselves hopelessly overexposed after house prices stopped rising in the first decade of the twenty-first century. While not as big in purely monetary terms, **bond markets** have also been in the news throughout the past decade as the ensuing crisis evolved through various other forms into the **eurozone debt crisis** (**see Box 27.3**). Adverse patterns of trading on bond markets pushed the debt repayment schedules of Ireland, Portugal, Italy, Spain, Cyprus, and, in particular, Greece so high that they were required to seek external support in exchange for commitments to deeper public spending cuts. This is typical of the speculative impulse which drives so much of the activity in the global financial hotspots of major world cities such as New York, London, and Hong Kong. Gargantuan sums of 'paper' money are now used routinely as bets placed on the power of private financial institutions to force the movement in asset prices that will benefit them most.

Box 27.2 What is international finance?

Even though the language and economic imagery used to describe international trade and international finance are often the same, in practice their dynamics differ substantially. Except for the case of **foreign direct investment**, it is very difficult to think of examples from the financial sphere in which one country 'produces' money for another country to 'consume'. Activity generally takes place on financial markets through taking paper positions using advanced information technology networks. Financial products only very rarely flow across borders in any straightforward import/export sense.

Key Points

- Flows of trade and finance have become markedly bigger since the take-off stage to globalization began.
- Analytical care should be taken about the precise senses in which trade and finance are labelled 'global'.
- The increase in world trade since 1970 is dramatic, although it might be that the process of regional economic integration accounts for those changes more readily than the process of genuine global economic integration.
- Trading on financial markets only very rarely involves money physically changing hands, but the volumes of 'paper' financial trading are eye-poppingly large.

The regulation of global trade

The 1944 Bretton Woods Conference brought together 44 soon-to-be victorious Allied countries. Its goal was to design a post-war governance structure for the Western world that would negate any chance of returning to the depression conditions of the 1930s (**see Ch. 16**). The new **Keynesian economic theory** of that time suggested that it was output rather than prices that adjusted to global imbalances in trade, thus forcing national economies into a repetitive cycle of reduced production and job losses. The ensuing blighting of lives through unprecedented levels of unemployment had preceded the embrace of fascist ideologies in many European countries, and British economist John Maynard Keynes was determined that the structure of global trade be stabilized to prevent political history from repeating itself.

His priority was to create a multilateral institution that would facilitate the continual expansion of global trade. The proposed institution was to be called the **International Trade Organization** (ITO). However, concerted dissent in US domestic politics meant that President Harry S. Truman did not even bother sending the final bill to Congress for ratification. It was deemed too interventionist for US politicians' tastes, because it would have introduced common standards in areas such as labour and the environment in an attempt to create a genuinely level playing field for import/export activities. In the 1940s the United States was by far the world's largest exporter, accounting for around a quarter of total global exports (WTO 2017: 100), and so an ITO without the US was deemed unthinkable. The plans for its introduction were therefore hastily dropped, leading to the establishment instead in 1947 of an ostensibly interim institution, the **General Agreement on Tariffs and Trade** (GATT).

The GATT provided a negotiating context in which any country could extend **tariff** concessions agreed bilaterally to third countries. Despite some obvious progress in this regard in eight completed rounds, by the 1990s it had become increasingly unsuited to the purpose for which it was designed. The GATT looked most appropriate for deepening the intensity of trade globalization, but it became increasingly unwieldy, with each influx of new entrants into the international trade system following the process of decolonization multiplying exponentially the number of third-country agreements that had to be struck. None of the first five

Box 27.3 The eurozone debt crisis

The eurozone debt crisis is one of the many aftershocks originating from the 2007–8 global financial crisis. The initial disturbances resulted from banks' failure to anticipate that their gigantic investments in **mortgage-backed securities** could become equally gigantic losses on their balance sheets. This was a problem specifically of private debt, but by the time it had morphed into pressure in the eurozone it became an issue of public debt. The countries at the heart of the eurozone crisis—Ireland, Portugal, Italy, Spain, Cyprus, and Greece—had not previously experienced major difficulties selling new public debt on bond markets to replace retiring public debt. Yet when speculators sniffed an opportunity for profit, these countries were suddenly forced to pay such high rates of interest on new public debt issues that their previous debt holdings became increasingly expensive to recycle. This situation was exacerbated by their lack of autonomy to set their own monetary policy to try to force down the cost of their debt recycling, since the eurozone operates a single monetary policy determined in Frankfurt by the European Central Bank. Critics of the ECB argue that it continually marginalizes the interests of weaker members of the Economic and Monetary Union and that eurozone monetary policy consequently follows the old **Bundesbank** policy model of strict counter-inflationary orthodoxy. The insistence of Angela Merkel, the German Chancellor, that the ECB maintain its pre-set policy course throughout the worst of the crisis—even in the face of an imminent Greek default—did nothing to dispel such accusations.

rounds took more than a year to complete, whereas the Uruguay Round that began in 1986 ballooned to over seven years. Its members subsequently passed provisions to formally shut down the GATT in 1995, replacing it with a permanent multilateral institution designed to embed free trade norms in international law—the **World Trade Organization** (WTO). Since then, this body—with its emphasis on enhancing the extensity of trade globalization—has been formally charged with overseeing the regulation of import/export activities.

However, the WTO has proved to be a far from perfect institutional fix, with political tensions remaining high in the global trade regime and the objective of enhanced extensity remaining out of easy reach. The WTO prides itself on serving the interests of all its members equally by enshrining the single economic logic of **comparative advantage**. This theory now dates back two centuries, and it has been described by Nobel Laureate Paul Samuelson as the most beautiful law ever devised in economics. The theory asserts that if all countries can be persuaded to specialize national production in line with what they are able to do best, global production will be at its most efficient. This is because every country will have organized its production so that the **opportunity cost** of the resources that could have been used to make other things is minimized. Put more simply, comparative advantage is about encouraging countries to concentrate their economic activities on what they can produce more cheaply than anyone else. If they then trade their surpluses on this specialized production on open markets under the most favoured nation principle (**see Box 27.4**), the possibility exists for everyone in the world to benefit from falling consumer prices. However, the WTO has been accused since its inception of being much better at protecting its most powerful members' comparative advantage, consequently leaving its less powerful members isolated from the potential gains from trade. The more that it has moved to add further issue-areas to its purview—including trade in services and trade in **intellectual property**—the louder critical voices have grown on this point.

As of September 2019, the WTO has 164 members and a further 23 observer governments. The majority of these are developing countries, and over 20 per cent of the entire membership has the United Nations designation of least-developed country. The principal export goods for many developing countries are in agriculture and textiles, but these sectors are among those least comprehensively covered by the WTO's free trade agreements. Advanced industrialized countries have damaged the WTO's reputation most through their reluctance to expose these sectors domestically to direct competition from low-cost developing country producers. Instead, they have retained a complex structure of subsidies and tariffs that contrasts sharply with WTO law in nearly every other sector of the world economy. By contrast, the WTO has proved to be very effective at removing government subsidies that artificially reduce home producers' costs of production on merchandise goods relative to overseas producers' costs, as well as preventing developing countries from producing generic versions of products protected under intellectual property law. It also boasts successes in removing tariffs that artificially inflate the price at which overseas producers can sell both merchandise goods and services relative to home producers' prices. In all of these instances, the ensuing absence of protective national legislation works to the advantage of advanced industrialized countries.

Developing countries' incentives for WTO membership therefore lie less in direct welfare gains resulting from enhanced export earnings than in other mechanisms. Most developing countries have fragile public finances, and they depend for their continued financial viability on the capacity to tap the global financial system for flows of money. If developing countries are to benefit from inward capital flows, they need to secure a positive assessment of their economic outlook in the regular country reports written by the **International Monetary Fund** (IMF) and the global **credit rating agencies**.

Box 27.4 The most favoured nation principle

The most favoured nation principle provided the bedrock of GATT negotiations and is formally laid down in GATT Article I. It states that any preferential trading agreement reached with one country should be extended to other countries. The aim—which also continues to be the case under the WTO system—was to disqualify members from using asymmetric tariffs in order to impose higher trading costs on some countries than on others. It is hoped that this will enable a higher proportion of world GDP to be traded globally because level playing field conditions will prevail. The principle has been distorted, however, by the move towards regional trading blocs. Such arrangements allow countries to set lower tariffs for their in-bloc trading partners than for countries outside the bloc. This is why some globalization purists argue that regional trade agreements are an impediment to genuine economic globalization.

Opposing Opinions 27.1 The institutions of global economic governance work to the benefit of developing countries

For

There are lots of econometric studies which show that the more integrated developing countries are into global structures of trade and finance, the higher their levels of economic growth. Institutions of global economic governance serve that integrative function and therefore help developing countries to lift their citizens out of poverty.

The current governance trend in the global economy is very much towards the sort of bilateralism which reveals the perilous political position of most developing countries. The institutions of global economic governance remain the most obvious defenders of multilateralism, offering safeguards to developing countries when they need protection from the actions of powerful states.

Developing countries are beginning to have success in bringing legal actions against more powerful countries when the latter have breached WTO rules. This is very different from the earliest years of the WTO, when the dispute settlement mechanism was used primarily to reinforce developing countries' subordinate position in the global trade regime.

If developing countries could not rely on the IMF and the World Bank for financial assistance, respectively, to stabilize their economies and to fund development projects, they would not be able to access that assistance at all. The institutions of global economic governance therefore act as global lenders of last resort for developing countries.

Against

Developing country critics of their incorporation into global structures of trade and finance can point to just as many studies which show how disproportionately few of the economic gains of globalization have flowed to them. The critics' voices would be at least partially nullified if all of the plausible evidence was in the opposite direction.

Proposed new initiatives to extend the multilateral governance system into new areas always seem to be met with the most obvious immediate resistance from developing countries concerned about further losses of autonomy. Obvious examples in this regard involve proposals to introduce the Multilateral Agreement on Investment in the 1990s and the Transatlantic Trade and Investment Partnership in the 2010s.

The WTO's disputes resolution mechanism still seems to privilege those countries that can afford to maintain the largest permanent legal delegations at the institution's headquarters in Geneva. This most definitely does not include anything other than the smallest imaginable subset of developing countries.

In assuming the role of global lender of last resort, the IMF and World Bank do not provide developing countries with what economists call a 'free lunch'. They offer loans not gifts, and those loans are often accompanied by controversial conditionalities which deprive developing countries of an important element of their political self-determination.

1. Why might developing countries only be reluctant members of regimes of global trade and global finance?
2. Do developing countries really get an equal say in how the institutions of global economic governance are managed?
3. Are the WTO, IMF, and World Bank guilty of treating the Western economy as a universal template for global norms?

For advice on how to answer these questions, see the pointers **www.oup.com/he/baylis8e**

This in turn depends on finding ways of assuring global investors that the rule of law is sufficiently established to prevent the state from appropriating overseas financial investments, such that the success of those investments will be determined solely by market mechanisms. Membership of the WTO guarantees not only that its specific free trade rules are internalized, but also that its broader market-based mind-set permeates the general national approach to issues of **macroeconomic** management. For many developing countries, then, joining the WTO is a signalling device designed to reassure global investors that any money committed to their country is likely to remain safe. Decisions about WTO membership for least-developed countries are thereby infused with global power relationships (**see Opposing Opinions 27.1**). The WTO is much more important to them than their membership is to the WTO.

The more powerful WTO members know this only too well, and they have increasingly used the accession process to impose ever more stringent conditions on entry for new members. The most recent entrants have been required to harmonize many of their economic laws with those of existing members, irrespective of whether or not it makes economic sense for them to do so. As a consequence, the accession process has steadily become longer and costlier, and it is increasingly dominated by the need for applicant states to make concessions to more powerful countries that become, in effect, their political taskmasters. That same subordination is then imprinted into the WTO's decision-making processes. Votes are not taken on individual measures to build up incrementally a body of international trade law that is acceptable to a majority of WTO members, as would be expected under a genuinely participatory system. Instead, at every WTO ministerial meeting members must decide whether to accept as a whole a package of reforms known as the **Single Undertaking**. The economic substance of this package is largely agreed in advance—and outside a democratic context—by an informal alliance of agenda-setting countries known colloquially as the Quad. This reduces the politics of the meetings themselves to delivering sufficient inducements to secure reluctant members' nominal consent for the Single Undertaking.

The US and the EU (the two global trade powerhouses) hold the most prominent position as regards the pre-agreement process, increasing the likelihood that the outcome of ministerial meetings will satisfy their interests. Historically, they were joined in the Quad by Japan (with its ability to bring Asian countries into agreements) and Canada (balancing EU with NAFTA interests but also representing **Cairns Group** concerns for agricultural liberalization). However, with subsequent changes in the centres of global economic production, there are now competing G4 groupings. A new Quad has emerged, comprising the US and the EU (still the powerhouses), Brazil, and India (newly industrializing countries with huge potential consumer markets, but positioned differently on the question of agricultural liberalization). In neither scenario will the vast majority of developing countries have agenda-setting power, and even though there is a voice on both G4 groupings for the liberalizing agricultural reforms that would play to developing countries' comparative advantage, that voice is always going to be the minority. In order to reinforce their already significant advantage at the pre-meeting stage, the US and the EU take much larger diplomatic delegations to ministerial meetings than anyone else, increasing their chances of persuading other countries to sign up to the Single Undertaking.

However, despite having formalized a set of internal operating procedures that seem loaded heavily in their favour, the US and the EU are still showing increasing signs of impatience with what they see as a toothless WTO system. In August 2018, the WTO finally tested Trump's patience in the same way that the mere existence of other multilateral organizations always seems to do, as he described its creation as 'the single worst trade deal ever made' by US negotiators (Micklethwait, Talev, and Jacobs 2018). Precedents already existed for such an outburst, in that very quickly after his inauguration he signed executive orders to strike down legislation that paved the way for the completion of the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership (TTIP). The negotiation of these partnerships—with 11 Pacific coastline countries and 28 EU member states respectively—had been triggered by previous US administrations becoming concerned that the WTO's formal one-member-one-vote rules introduced too many potential veto players who might frustrate US commercial interests. Trump himself has subsequently responded to the continuing US trade deficit by branding the EU a 'foe' because its producers sell more to the US market than its consumers buy from it. He has also lumped together China and the EU by calling them both currency manipulators who use aggressive exchange rate interventions to ensure that their products are priced below those of the US (**see Case Study 27.1**).

Indeed, every Quad head of government had been in Trump's cross hairs at some stage in the first three years of his presidency, making it difficult to see how the Quad structure might survive in either of its pre-existing forms even if Trump does not come good on his threat to remove the US from the WTO altogether. One country likely to be watching developments in this area particularly closely is the UK. If it eventually leaves the European Union and its associated place in both G4 groupings, it will have to construct much of its short-term trade policy on the basis of WTO rules handed down by others. Its adjustment to economic life outside the EU is likely to be harder the more dysfunctional the WTO becomes in the face of a resurgence of Trump-led bilateralism.

Perhaps, though, this is just another example of presidential bluster designed to bring other participants in the multilateral trading system into direct bilateral negotiations. After all, Trump has based his political appeal on being the self-styled master of the deal, someone who could use his business prowess in face-to-face negotiations to make gains for the US that other politicians would be unable to deliver. By August 2018, this tactic had already led to one-on-one talks with the-then President of the European Commission, Jean-Claude Juncker, which each man described as creating a platform for future bilateral negotiations to replace the failed TTIP venture. It had also led to Mexico agreeing to renegotiate some of the terms of NAFTA, the North American Free Trade Agreement, thus pressurizing Canada to respond in kind. Trump appears to trust himself to get more done in behind-closed-doors one-on-one meetings than he trusts the legions of well-paid professional US trade negotiators to get done multilaterally.

Key Points

- The move to disband the GATT in favour of the law-making WTO system was an attempt to create more straightforward negotiations for global free trade by eliminating the logjams associated with complexly cross-cutting bilateralism.
- The WTO system has always operated asymmetrically to the advantage of its agenda-setting members.
- Developing countries' decisions about whether to become members of the WTO are often influenced heavily by the political pressures placed on them to demonstrate their commitment to the existing global economic order.
- The WTO faces an uncertain future as its most powerful members have recently shown an increasing willingness to bypass it in favour of bilateral trade negotiations.

The regulation of global finance

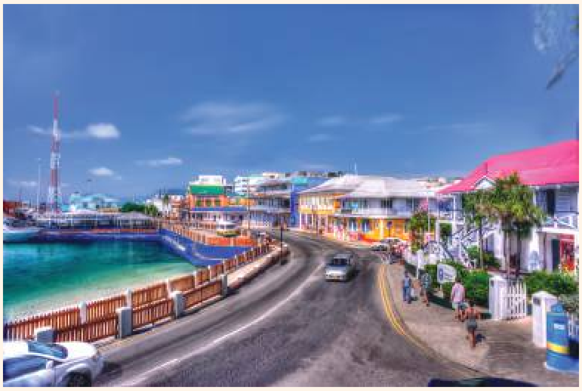
The regulation of global finance has none of the democratic pretensions associated with the WTO's (nonetheless much-derided) one-member-one-vote system. In the main, expert rather than political communities decide the contents of global financial regulation, and its objectives are determined almost solely by the countries that finance the maintenance of the regulatory system. The International Monetary Fund and the **World Bank** are the two principal bodies in this respect, both dating back to the original **Bretton Woods** agreements of the 1940s. The formal task of the IMF is to provide short-term monetary assistance to countries struggling with financial instability, that of the World Bank to provide longer-term monetary assistance to countries seeking enhanced development prospects. Both institutions prefer to present themselves as providing purely technical help to countries in economic distress. Yet their willingness to embrace the use of conditionalities as a prerequisite for loans immediately politicizes their activities (**see Ch. 26**). Just as with the new accession demands placed on potential WTO members, IMF and World Bank conditionalities create a context in which national politicians have often had to ignore their electoral mandates and sacrifice their domestic political legitimacy in order to satisfy the institutions' demands (**see Box 27.5**).

Concerted political dissent has followed from allowing financial market actors unrestricted scope to invest their money in the ways they choose, as this has resulted in further concentrations of wealth in the hands of the already well-to-do. The overall logic of redistribution in the post-war Keynesian era was from rich to poor, but since the first attempts were made in the 1970s to re-establish a framework of self-regulating financial markets, that logic has been completely reversed. In general, **market self-regulation** is a rich person's playground. For instance, I cannot make money from correctly reading the price signals emanating from financial markets if I have no money to invest there in the first place. Yet if investors can manipulate those price signals to their own advantage

Box 27.5 The controversies surrounding political conditionalities

IMF and World Bank conditionalities are so named because they ensure that countries qualify for financial assistance not only on the grounds of their need, but also on the condition that they follow the policy objectives laid down by these institutions. In effect, this allows IMF and World Bank officials appointed in Washington for their technical expertise to appropriate the power of policy determination from governments, including those elected democratically. The Bretton Woods institutions have often been reproached for selecting policy objectives drawn only from within the ideological perspective of Western free market capitalism, thus destroying local economic customs and traditions in preference for globally homogeneous neoliberal economic lifestyles. The technical expertise their officials display typically reflects Western assumptions, priorities, and interests. In this way, critics allege that the Bretton Woods institutions operate as covert agents of Western foreign economic policy, preparing developing countries for investment by Western firms by making them seem more 'familiar', both legally and culturally.

Case Study 27.2 Tax havens and overseas aid budgets



The Cayman Islands

Tax havens offer a rare example of a political issue where populist nationalists and liberal globalists tend to agree. Populist nationalists typically object to high-wealth individuals and corporations exploiting offshore financial centres' tax loopholes because this is evidence of global elites refusing to be bound by the same laws that govern national society. Liberal globalists, meanwhile, object to offshore financial centres' potential for undermining the integrity of global governance structures. Populist nationalists therefore protest against the way in which the mere presence of tax havens can fracture what might otherwise be a united national political community, whereas liberal globalists protest against the way in which in practice they play off one part of the global political community against another. But the fact of protest is a common theme. It might therefore come as a surprise that the shared belief that 'something must be done' about tax havens has not yet resulted in decisive action against them.

Many of the newly decolonized small island states which act as offshore financial centres have conventionally been regarded as 'underdeveloped' countries. Their governments have almost always pushed back rather hard against any suggestion that they should 'put their house in order' by becoming more transparent and more willing to close tax loopholes. They have presented such arguments as a moral veneer used by richer countries to pursue a protectionist policy designed to prevent offshore financial centres from exploiting their comparative advantage. You developed in a way that best suited your economy in the past, they say, so let us do the same now that we have broken the bonds of colonization. Besides, they continue, what harm can we be doing to the governance structure of the world economy when the investment practices we allow are legal both in our country and in yours?

The reality, though, is rather more complex than this line of defence permits. Wherever nationalist populism has come to greater political prominence, a more sceptical approach to overseas aid budgets has followed. Why should we divert our citizens' hard-earned tax payments to other countries, the argument goes, when there is not enough revenue to pay for the social services that we want to deliver at home? The UN target of contributing just 0.7 per cent of GDP to overseas aid looks to be an increasing stretch the greater the gap becomes between what high-wealth individuals and corporations would be expected to pay in the absence of tax havens and what they actually do pay. Liberal globalists, meanwhile, assert that those who have done well out of economic globalization have an obligation to compensate those who have not by funding enhanced development trajectories. The overseas aid budget is less able to act as such a compensation mechanism the more the very presence of tax havens suppresses global tax revenues.

Question 1: Do offshore financial centres promote their own economic development at the direct expense of development funded through overseas aid budgets?

Question 2: Does the moral case against tax havens matter more than the fact that people can often invest in them perfectly legally?

and undermine my livelihood through forcing down the price of the good I hope to sell, I can experience the adverse effects of market self-regulation without ever once becoming a market player myself. As **Occupy**'s slogan of 'We are the 99 per cent' implies, there are a considerable number of people globally who find themselves in this unenviable position (**see Case Study 27.2**).

One of the main reasons that the IMF and the World Bank evoke dissent from civil society is because they have typically been the most visible formal symbols of the institutionalized power of global finance. Economic globalization has generated a widespread perception that a systematic transfer of power has occurred, whereby individuals working in private financial institutions have usurped the power traditionally ascribed to governments under systems of representative democracy. From this perspective, the main role of the Bretton Woods institutions is simply to ensure that good sense prevails by guaranteeing that *all* governments—of developing and developed countries alike—respect this new reality. Nobody elected the representatives of global finance to make political decisions on their behalf, of course, but this increasingly is what the academic literature says happens in practice.

What can be made of this assumption, though, in light of the IMF's actions post-global financial crisis? It has consistently criticized governments it believes have prioritized the **austerity** solution to imbalances in public finances for purely ideological reasons. Its pleas may have fallen on deaf ears for those governments that have seized on the economic difficulties created by the global financial crisis to try to shrink the size of the state in line with the political prescriptions that emerged following the crisis of the 1970s. But the IMF's advice has been clear: welfare-enhancing programmes are not the expensive luxury that pro-austerity discourse routinely depicts them to be; rather, the benefits system guarantees a greater number of people viable incomes, with wide-ranging macroeconomic benefits. It ensures that there is enough spending in the economy to keep growth rates high, and growth is the surest means of being able to rebalance public finances without forcing the poorest members of society to shoulder a disproportionate burden of the costs of doing so. It is starkly ironic when pro-austerity governments ignore this advice. They have justified austerity by arguing that this is the only approach that the representatives of global finance will sanction and that any deviation from this path—however slight and however temporary—will result in punitive price movements on bond and currency markets. However, they have done so in the face of the IMF, the institution that supposedly acts to ensure that market sentiment is respected, consistently urging a different course of action.

The IMF was also the only one of Greece's creditors to protest the terms of the eleventh-hour agreement that was designed to forestall imminent default on the country's debt during the summer of 2015. Eurozone finance ministers had been engaged in diplomatic brinkmanship with Greek negotiators ever since the advent of the avowedly anti-austerity Syriza government in January 2015. Its mandate was to secure a degree of debt forgiveness and to restructure the repayment terms of the remaining loans from the so-called Troika: the European Commission, the European Central Bank (ECB), and the IMF. It had run on a promise that a definite limit would be placed on scaling back the welfare system in order to meet creditors' demands; a snap referendum on the bailout terms on 5 July 2015 reinforced its political mandate to continue to ask for more favourable terms. Ultimately, though, Alexis Tsipras, the Syriza Prime Minister, steered a barely better deal through the Greek Parliament less than a fortnight later. The IMF remained critical of the deal, arguing that the new austerity path would prove unsustainable. The supposed global watchdog of financial market orthodoxy has thus proved once again to be less willing to play the policing role than many of the governments it is meant to be monitoring.

Despite these changes to the IMF's approach, the perception that financial markets punish governments that fail to protect the interests of global investors is by no means invalidated. The representatives of global finance continue to enforce 'correctives' to supposedly errant government behaviour. This is how the eurozone crisis started in the first place (**see Box 27.3**). Once the global financial crisis shut down markets in more complex derivatives instruments, the new normal became betting on the highest price that the markets would bear for Irish, Portuguese, Italian, Spanish, Cypriot, and Greek debt. The European Commission, the ECB, and many eurozone countries' political leaders might well have said that Greece had no choice other than to face up to market 'reality', but that reality was itself produced by market actors' speculative activities.

These recent developments suggest that the Bretton Woods institutions have not had the same modus operandi throughout the whole of their existence. Despite the academic literature's understandable focus on the IMF's and World Bank's controversial period of rampant pro-market advocacy in the 1980s, it is important to remember that they had a distinctive history both before and after that time. As formally inscribed in the original Bretton Woods agreements, for instance, the priority of global economic governance following the Second World War was to stimulate free market flows of traded goods rather than to stimulate free market flows of finance. The successful long-term development that the World Bank was intended to oversee was assumed to be the outcome of stable trading conditions. In an attempt to enhance such stability, obstacles in the form of **capital controls** were placed on the movement of finance among countries and defended by the IMF. Today's excessive paper trading of increasingly complex and increasingly abstract financial instruments was completely unthinkable under the remit of the original Bretton Woods agreements. Market self-regulation of finance was formally disqualified in this period. In effect, the IMF was initially designed as a subsidiary regulator of global trade. At the very least, in its day-to-day activities it was the regulator of heavily restrictive capital controls in which trade could flourish. It is somewhat ironic that the WTO system now arguably serves the opposite function. Given that a primary reason for WTO membership for developing countries is as a signalling device to international investors, the WTO can now be seen as a trade regulator assisting in the maintenance of the financial regime.

This role reversal demonstrates clearly that the political settlement which cast finance as the servant to the rest of the world economy was only short-lived. In a series of steps between 1971 and 1973, the Nixon administration first backed the US away from its currency responsibilities in the Bretton Woods system and then formally reneged on them altogether. The system relied on US dollars being available freely in the world economy at a fixed rate relative to the price of gold, which had the effect of fixing all exchange rates with respect to one another. Once the Nixon administration had allowed the value of the dollar to be set by global financial market activity rather than by government commitment to currency pegs, all currencies eventually floated against one another. As soon as this happened, incentives arose for the advanced industrialized countries to dismantle their capital controls in an attempt to attract flows of finance from elsewhere in the world economy. This they duly did, and the shackles that Bretton Woods had placed on global finance were undone (**see Chs 1 & 16**). Today's experience of an increasingly politically assertive financial sector originates from this time.

Key Points

- There is much more 'money' in the world today than goods to spend it on: the dollar value of total domestic financial assets is over four times higher than world GDP.
- Under the Bretton Woods system of the immediate post-Second World War era, finance was stripped of its global mobility and generally boxed in by political decree so that it would serve the interests of stable global trade relations.
- The institutionalized power of global finance has led to a regressive redistribution from the 1970s in which the global rich have become significantly richer and the global poor have been increasingly marginalized.
- There are now many activist groups challenging the influence of global financial elites, especially their use of **offshore financial centres** to hide their money from domestic tax authorities (**see Case Study 27.2**).

Conclusion

The move towards market self-regulation is the most noteworthy trend since the 1970s in both global trade and global finance. Yet, as the dramatic downturn in world trade in the immediate aftermath of the 2007–8 global financial crisis shows, the complementarity of regulatory forms is not necessarily synonymous with an internally coherent regulatory system. Regulatory coherence arises only when there are overarching economic regime features that impose institutional constraints on one sphere so as to facilitate regulatory effectiveness in the other. Recent changes in global economic governance priorities increasingly rule out such a scenario, suggesting that the 1940s might prove to have been a high water mark for global economic regulatory coherence.

The system of global trade and global finance therefore looks to be generically prone to uncertainty. There might be little that is genuinely global about this system, and there might also be little that allows it to act as a genuine system. Neither of these things might count decisively against it if it nonetheless sustained the impression that everyone got their fair share from economic globalization. However, this has never been the case, and the increasingly all-encompassing sense that a global 99 per cent is pitted against a global 1 per cent suggests that nothing will change on this front very soon. Moreover, in the West at least, the political pressure for change is currently coming most obviously within the parliamentary system from a populist nationalism. Its proponents have embraced the imagery of an authentic national population being diluted, undermined, and exploited by outsiders at the behest of an unelected and unaccountable global elite. The febrile nature of the political environment into which this argument is currently being pitched threatens merely to intensify existing problems caused by on-going regulatory incoherence.

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Questions

1. Is it significant that economic 'globalization' does not seem to be global, strictly speaking?
2. Why does the current structure of global economic governance provoke such resentment among political activists from both left and right?
3. How has the failure of the International Trade Organization impacted subsequent attempts to tie trade globalization to the introduction of progressive social conditions of production?
4. Has the WTO failed in its mission to promote a symmetrical trade globalization that benefits all countries?
5. If it leaves the European Union, how should a post-**Brexit** UK seek to insert itself into international trade deals?
6. What image would you try to foster for the IMF if you were its current managing director?
7. When governments invoke all-powerful financial interests in order to justify austerity policies at home, what does it suggest about the political interests embedded in global trade and global finance?
8. Insofar as finance was the servant of world trade under the original Bretton Woods agreements, is it now unequivocally the master?
9. If you had been a member of the Greek Parliament in July 2015, would you have voted for the final debt crisis bailout plan?
10. Is a 'new Bretton Woods' necessary if regulatory coherence is once again to be achieved between the spheres of global trade and global finance?

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Further Reading

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