

Chapter 30

International Political Economy

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The large-scale questions of economic geography center on the evolution of the world economy. By *economy* I mean the assemblage of rules and practices by which the nature of the productive effort is determined, by which labor is allocated to the different tasks of that effort, and by which the rewards of that labor are allocated to individuals. Understanding the geography of the world economy generates a vast array of questions about the relations between the rules and practices within different places; about the relationship between the history of economy within a particular place and general theory; and about the relations between economic characteristics, politics, and other arenas of social life. The intellectual terrains within which such forms of research are conducted include economic history and international political economy.

International political economy (IPE) is an approach to (or a branch of) international relations.¹ Within political science, it is distinguished by two claims. The first, defining, characteristic is its insistence that understanding international political relations means also understanding the economic relations between places, and that to understand the economic relations between places it is necessary to understand their political relations. IPE is therefore about the interrelationships between politics and economics at a world scale. The second distinguishing interest of IPE is the relationship between what happens inside states and what happens outside them – the relations between internal and international events. So the central problematic of IPE is the intersection of a pair of themes (figure 30.1).

In the past, the rules and practices of economy have been clearly nationally specific, as well as regionally variable. Now, economic geography, like other forms of human geography, is dominated by claims that the nationally specific economy is breaking down as a globalized form of economy takes shape. In this new globalized form of economy, the capacities of states to articulate and to shape national social goals are being renegotiated as social and economic policies seem to become increasingly homogeneous. A central task of modern economic geography is to understand how the geography of the world economy is being reworked. The principles that IPE emphasizes can assist geographers in this task. On the one hand, debates over

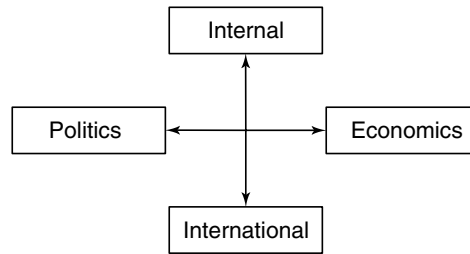


Figure 30.1 The problematic of international political economy

Source: Author

globalization must be conducted at scale-intersecting levels, for to understand global means to understand local events; and to understand what is happening here means to understand what is global (and going on there). This framework disarms the distinction between scales. On the other hand, the emergence of a globalized economy exemplifies the intersection of economics and politics. This prescription is not widespread among all varieties of social scientists, many of whom regard economics as a matter of pure rationality; into decisions about the economy, matters of mere politics should not intrude. It is the insistence of IPE on these two principles that makes it such a useful framework within which to think about and study the emergence of a new globalized economic geography.

This chapter seeks to demonstrate the validity of this assertion through five major sections. First, since IPE is part of another discipline, its language is different from that of economic geography; so the chapter opens by summarizing the key theoretical positions within international relations. On that basis, the second section identifies the implications of a variety of post-positivist theories of social science for recent international relations. Then the chapter goes on to portray the central ideas of IPE and the main lines of debate within it over the past decade or so. The fourth section surveys the recent intellectual development of some aspects of globalization within IPE. To a large extent, as the diagram above makes clear, globalization is a theme that is necessarily embedded within IPE. The conclusion of the chapter uses this information to state a research agenda for geographers about the evolution of the global economy. I hope to demonstrate that this agenda together with the central themes of IPE provides an important and useful framework within which to think about bigger questions than those that drive a lot of economic geography nowadays.

The Language of International Relations

The three classic theoretical traditions of economics are the subjective preference theory of value (presently, neoclassical theory), the cost of production theory of value (derived from Ricardo and Keynes), and the abstract labor theory of value (drawing on Marx).² Within international relations, these theoretical traditions are loosely reflected in what political scientists call realist theories, liberal theories, and Marxist theories respectively.³ This section introduces the classic theoretical distinctions as a prelude to more recent thinking.

Realists believe that states are the only actors that really count in international politics.⁴ The state in this view is understood as a unitary, strategic actor (following the “national interest”), rather than fragmented and buffeted by a variety of competing domestic interests. The state is a territorially bounded political community united by a central agency capable of expressing and enforcing common interests and goals.

States are, according to realists, crucial foci in the distribution of power across the world. Internally, states are regarded as having a monopoly over the legitimate use of physical force within a given territory, a legitimacy that is granted by the citizens of the state and by other states. Internationally, all states coexist in an anarchic system (i.e. lacking any common power over states). Since no global government has power over all states, cooperation between states can only be based on promises; therefore states must in the end rely on themselves to achieve their key objective – survival.⁵ So states seek to maximize their relative power or capability. In other words, the anarchical structure of international relations (rather than the historical and social circumstances of individual states) determines the form, functions, and behavior of states. Differences in state goals at the international level reflect differences in their power.

Realism is *the* theory of power politics. Since its adherents have close ties to governments, it has been the principal theoretical position within international relations, particularly in the USA. Challenges to it come first from those who argue that world politics ought to be conducted on a more moral basis. There are also empirical challenges, however, principally from those who claim that other actors share international power with states – transnational corporations, international human rights organizations, and such economic organizations as the International Monetary Fund and the World Trade Organization, for instance.⁶ The theoretical critics of realism argue that the central concept of power is well-nigh undefined, and that an anarchic international order does not imply that states can only rely on themselves.

The principal theoretical alternative to realism in international relations has been *liberalism*, at least until recently. In many respects the key principle of liberalism is its rejection of realism.⁷ In a crucial analogy to the invisible hand mechanism of Adam Smith, the natural order envisaged by such nineteenth-century liberals as Jeremy Bentham was one of peace, individual liberty, free trade, and prosperity. So the arbitrary use of power by states – in opposition to the wishes of people – underpinned much international conflict. Such liberals argued that, just as the behavior of individuals was regulated within a state, so the international behavior of states should be regulated by a system of legal rights and duties. One outcome of this belief was President Wilson’s advocacy of the League of Nations after World War I.

Despite the history of the League of Nations, liberal ideas re-emerged after World War II. They underpinned attempts to create transnational organizations to resolve common problems (see the list below). As they have championed in practical politics the emergence of such organizations, so liberals have increasingly theorized the international system as one in which states no longer have exclusive power. Power has to be shared between states, transnational corporations, and other organizations (the *pluralist* thesis); and international *regimes* offer frameworks within which states can learn to cooperate.⁸

The conditions under which regimes can emerge and be effective comprises one of the central liberal research agendas of recent times. Regime theory is one of the

battlegrounds between realists and idealists. Regime theory also provides the principal theoretical lens through which international negotiation over environmental governance is understood. Another important item in the liberal research agenda concerns the democratic peace thesis: that liberal democracies do not go to war against other liberal democracies. Since there seems to be empirical evidence in support of this thesis, the agenda asks why this is so (people's abhorrence of war? relative wealth?) and what policy implications should be drawn (how should liberal democratic values be spread?).

Within international relations, Marxist ideas have been reflected mainly through *world systems theory* (Wallerstein, 1974, 1980, 1989; Frank, 1979).⁹ Crudely put, world systems theory claims:

- that the events of world politics occur within a structure that shapes, defines, and determines them;
- that structure is the world economy, organized according to the logic of global capitalism.

This capitalist world economy emerged in Europe in the sixteenth century, integrating states in a system of core, peripheral, and semiperipheral relations. Core regions (Western Europe and North America) exploit peripheral regions (Africa, Latin America, and South Asia); the semiperiphery (including Australia) is simultaneously exploiter and exploited.

In world systems theory, the form of the capitalist world economy and the structure of the inter-state system are intertwined. Internally, states perform important functions for capitalism: for example, guaranteeing property rights and seeking to ameliorate such contradictions as that between wages as a source of demand and wages as a cost of production. The structure of the world economy means that states are competing with each other, so they do not have the power to dominate "their" capitalists: competition between states for political and military power depends partly on their economic power, which in turn rests on the strength of their domestic corporations, and that implies that states have broadly to support rather than restrict those corporations. This idea is a key insight into contemporary international political economy: what is the relationship between deregulation (especially of capital flows) and the power of states over corporations?

The Recent Debates: Importing Post-positivism

Broader movements within social science have been integrated with these three traditions to produce the recent debates about international relations. Rather later than in many other social sciences, *constitutive*¹⁰ and *anti-foundationalist*¹¹ theories have appeared within international relations during the last decade. In some ways, the recent history of international relations as a discipline can be represented as the unification of liberal and realist traditions against attacks from a variety of post-positivist approaches to social science. Thus, what is now called the "rationalist synthesis" represents a common, neoliberal, and neorealist approach to common questions. While neoliberals and neorealists offer slightly different answers to the questions, they now share fundamental assumptions

about the inter-state system: that the state is the most important actor; and that actors are utility maximizers (Baldwin, 1993). Although rationalism reflects the thinking of the foreign policy establishment, especially of the USA, it has not comprehended the nature of the challenge laid down by post-positivist theories. So rationalism is not interesting as a framework *for* study.¹² More vital are the alternatives.

Women have finally made an appearance. Feminist research follows a number of approaches to international relations:

- What are the roles played by women in international relations, and why is the importance of those roles hidden? (Enloe, 1990, 1993).
- How do the world capitalist system and patriarchy combine to produce systematic disadvantage for women as compared to men? (Bunch and Reilly, 1994; Institute for Women, Law and Development, 1993).
- In what respects is existing knowledge about international relations male knowledge, and what is female knowledge of international relations? (Weber, 1994; Marchand, 1996; Shapiro and Bilmayer, 1999).

Postmodernists have also surfaced in international relations theory. International relations would seem an especially fruitful field within which to develop examples of Foucault's claim that the knowledge that we produce depends on and reinforces existing power relations. To think seriously of big concepts like "the liberal international economic order" or "the anarchic inter-state system" or even of lower-level concepts such as "free trade" and "deregulation" is to think about the manner in which ideology is normalized and power hidden by the way in which words are used. Derrida's method of double-reading can be applied to deconstruct such concepts as anarchy (Ashley, 1988). In like manner, Weber (1995) and Biersteker and Weber (1996) have examined the manner in which the concept of state sovereignty is constructed socially.

Within international relations, historical sociologists have studied the evolution of the relationship between the form of domestic societies and the international system. They question the manner in which structures are produced by social processes. Tilly (1990), for example, has identified how the nation-state emerged in Europe as the predominant state form: after about 1500, the nation-state was the only form of state that could afford to fight the types of war that occurred. Structuration theory provides a basis for this work (Reus-Smit, 1996):

- social structures (the rules and resources of social reproduction) define what constitutes a legitimate actor and the actor's realm of justifiable action; but
- social structures do not exist independently of individuals' practices – they are created by the persistence of routine practices.

So, the structural properties of social systems are both the medium and the outcome of the practices they organize. Such ideas generate questions about the relations between domestic and international policy practices, about the emergence of agents of international economic governance, and about the relative power of different agencies of governments.

Finally, other varieties of Marxism than world systems theory have become important in international relations, especially through the work of Cox (1987, 1994).¹³ Examples of work inspired by Marxism will be discussed below.

Recent Debates within IPE

In my introductory remarks IPE was distinguished by its insistence on the need to understand interrelationships between politics and economics at a world scale, and by its concern with the relations between what happens inside states and what happens outside them. We need to flesh out these definitional remarks with some substantive claims, before examining some recent debates in IPE.

Commenting that the study of international relations pays far too much attention to the interests and actions of governments and far too little to the interests of people, Strange (1994a, pp. 17–18) begins her study of IPE by observing that human beings seek four critical values through societies: individual wealth; personal security; freedom (or the right to choose); and justice (or equality of opportunity). (Many add that environmental sustainability has become another critical value: see Diesendorf and Hamilton, 1997.) She goes on to define IPE as concerned with “the social, political and economic arrangements affecting the global systems of production, exchange and distribution, and the mix of values reflected therein” (Strange, 1994a, p. 18). (The values are the critical four: wealth, security, freedom, and justice.) International political economists must therefore study the way things are managed, how they came to be managed in that way, and the choices that remain for the future. Strange’s book is an extended essay on the manner in which state–market relations embody the weights given in different societies to the four critical values, and therefore the emphases placed on those values by states and institutions as they go about constructing the international political economy anew.¹⁴ The role of markets in social life depends on the role they are allowed by those with authority.

Power is the capacity of one institution or state to get other institutions or states to do what it wants – by virtue of coercive force, wealth, or moral authority. Power is used

- directly, by making an explicit or tacit threat; or
- indirectly, by constructing the rules of the game in such a way that others freely choose to do what is desired.¹⁵

Any critical study of IPE must therefore identify who holds power and why. Marxists identify the structure of production as *the* source of social power, so the state is the political embodiment of class power.¹⁶ Cox (1987) provides an historical and wide-ranging study of the evolution of the international political economy along Marxist lines that traces changes in modes of production, in the social organization of states, in the relations between national economies, and in the structure of the inter-state system. Strange (1994a, pp. 26–32) also recognizes the structure of production as one source of power, but adds control over security, control over the finance system, and control over knowledge as others. The nature and consequences of US military power, the financial events in Southeast and East Asia since mid-1997,

and Foucault-like studies of power and knowledge all certainly indicate that security, finance, and knowledge are sources of power. Marxists would ask, however, about the extent to which those sources of power are independent of the power that derives from the production system. Issues of internal domestic power and international power, of authority, and of markets are vital to the current preoccupation of IPE: globalization.

Globalization, as an issue in IPE, generates a huge array of questions:

- What are the characteristics of the emerging global economy? To what degree can we perceive globalization rather than simply internationalization? What is the degree of novelty involved? What are the new balances of wealth, security, freedom, and justice – for whom, and where?
- Whose power has been deployed to underpin the emergence of this global economy? What are the crucial struggles of interest inherent in globalization?
- Is the emergence of this economy altering earlier balances of power between states and markets? What does a new political economy imply for future distributions of wealth, security, freedom, and justice?

The global preoccupation underlies research on most of the immediate questions of IPE. In the following section I will explore some aspects of this preoccupation a little more carefully. During this exploration, I shall present a perspective that draws on recent trends in Marxist IPE, and contrast that to the views that draw upon rationalism. What I want to demonstrate is that differences in *a priori* theoretical perspective dominate empirical and interpretative research. Even the act of defining globalization separates theoretical persuasions. If definitions are different, so are the events one looks for. If the events are different, then so are the interpretations. Rationalists tend to regard changes in the organization of the global economy as having causes that are technological (communications technologies, especially) and political (states learn about appropriate policy settings); in a constructivist-Marxist mode, the organization of the global economy is created by state actions (in the context of previous actions) that themselves are encouraged by dominant social groups within countries (especially business groupings).

Globalization and State Capacity

Defining globalization

Globalization is often defined empirically: authors identify the forms of organization of the international political economy that constitute globalization, and contrast them with mere internationalization.

The *international* economy can be defined as the economic relations between and among nation-states (Hirst and Thompson, 1996, pp. 8–9). The basic units of the international economy are national economies; the significant activities of the international economy are trade, the consequent international division of labor, the international payments system, and international investment. International events filter into the national economy through national policies. Multinational corporations, for example, generally have a clear home base, whence they are regulated.

Internationalization, then, is the intensification of interactions between nation-states.

However, superimposed on the international economy is an integrated economy, which comprises the activities of transnational actors. These transnational actors include transnational corporations, transnational labor organizations (such as the ILO), institutions of global economic and environmental governance (such as the IMF), global social movements (such as Oxfam) and global business organizations (such as the International Standards Organisation and the World Economic Forum). The global economy might be defined as the international economy together with the integrated economy, and *globalization* as the intensification of borderless (or across border) social activities (see also Cox, 1994).¹⁷ This definition would be acceptable to many rationalists.

In such empirical definitions, a global economy is identified by the organizations that it contains. Two other categories of phenomena are sometimes added to those identified by Hirst, Thompson and Cox:

- Environmental catastrophes now affect broader and broader areas. Humans have invaded physical and ecological relations to such an extent that nowhere on earth escapes our interference: the whole world has been Disney-fied in our attempt to manipulate nature (McKibben, 1990). Furthermore, the impacts of processes in individual places are increasingly felt abroad: when rainforests burn in Indonesia, the social and ecological ramifications extend around the world. This move would be acceptable to rationalists.
- The concept of globalization can also refer to the tendency for the market to assimilate spheres of social life that have in the past been organized by non-market relations (Hinkson, 1996): government services are corporatized; health, education, and welfare marketized; services privatized; and sport and other cultural activities professionalized and commercialized. This use would not be acceptable to rationalists, who do not distinguish theoretically between state and privately provided services.¹⁸

However, empirical definitions, like this definition of globalization, fail to identify whether the various observed trends are related to each other (cf. Webber, 2000). Is globalization merely the conjunction of observed trends, or is it a process? If globalization is to be taken seriously as a category of social change, then it must be defined theoretically, not just as a collection of purported empirical trends. Radical social scientists claim that social, cultural, and economic changes are to be identified, understood, and assessed by the way they alter social relations. Marxists argue that the social relations of a commodity producing system are summarized in the concept of value. To Marxists, then, globalization has to be understood in terms of the difference it makes to the ways in which commodity values are determined and calculated.

One such definition is: globalization is the enlargement of the sphere of a common value system (cf. Swyngedouw, this volume). In sectoral terms, globalization occurs when market forms of valuation are applied to ever wider areas of daily life as the commodity form is generalized. People whose work previously lay outside the sphere of capitalist labor relations would be increasingly subjected to the demands

for surplus value. In spatial terms, globalization occurs when values in different places tend to become similar. If places compete more, if corporations demand equal productivity and production quality in different places, if states are increasingly subject to the requirements of the institutions of global governance – then the demands for surplus value would be made more equally in different societies. In such a definition, derived from the theory of value, globalization is an economic process, though not one that applies only to those areas of social life that we call the economy.

Whether one prefers an empirical definition or a theoretical one, there arises the question: what is the extent of globalization? Hirst and Thompson (1996) are critical of those who think that globalization is well advanced; they claim that there is a lot of internationalization but little globalization. Cox (1994), on the other hand, regards globalization as an important characteristic of social life, for he, like others, is much impressed by the new power of finance capital to graze the globe for profit (Leyshon, this volume). The problem for this debate is that we know how to study international economic relations (international trade and capital flows are measured routinely), but not how to study and measure global economic relations (how would we measure the degree of global integration of transnational businesses?). Actually, a solution to this empirical problem is provided by the theoretical definition: are measured values becoming more similar in different sectors and places?¹⁹

Even those who think that globalization is well advanced (such as Bryan and Rafferty, 1999) recognize some limits on its progress. Globalization is not progressing at the same rate everywhere (much of Africa, South Asia, and Central Asia have been left largely behind); nor does globalization mean increasing homogeneity in social life. Furthermore, the fact that the reproduction of labor power remains largely outside the scope of capitalist social relations impedes processes by which values are equalized across societies.

With a sense of the variable nature and extent of globalization, however, the concept can be used to understand the new balances of wealth, security, freedom, and justice (for whom, where).

Whose is the power to go global?

One facet of the global economy concerns the growth of international economic relations. World trade has grown from about 7 percent of world production in 1950 to 22 percent in the mid-1990s (WTO, 1995).²⁰ Though difficult to measure, it is supposed that foreign investment and transnational business have grown similarly: Howell (1998), for example, has estimated that private financial flows into developing countries increased six-fold between 1990 and 1997. This expansion of international and global activity has gone hand in hand with the emergence of a system to regulate and promote it.

One existing agency of global economic governance predated World War II:

1. The Bank for International Settlements, established in 1930 and headquartered in Basel, Switzerland, monitors monetary policy and money flows and is seeking international regulation of banking. Its members are national central banks.

However, the principal elements of the system of regulation were agreed by the USA and its allies at Bretton Woods in 1944 (Leyshon, this volume):

2. The IMF, established in 1945 with headquarters in Washington, D.C., supervises short-term money flows and foreign exchange. Since 1979 it has formulated Structural Adjustment Programs for many poorer countries in exchange for assistance in refinancing debt. Members are countries; their votes are proportional to their financial contributions, so the IMF is dominated by the USA.
3. The World Bank, established in 1945, also with headquarters in Washington, D.C., provides long-term development finance and has cooperated with the IMF in Structural Assistance Programs. Members are countries; their votes are proportional to their financial contributions (also dominated by the USA).
4. The General Agreements on Tariffs and Trade (GATT), established in 1947, has offices in Geneva.²¹ Members are states, with one state-one vote.
5. The Bretton Woods agreement fixed the price of gold in US dollars and enshrined the principle of fixed exchange rates against the US dollar. This system disintegrated in the early 1970s.

Since the late 1940s, other organizations have emerged:

6. The Organization of Economic Cooperation and Development (OECD), founded in 1962 and headquartered in Paris, is a principal source of research and propaganda on economic questions. Its members are advanced industrial states (currently 29).
7. The United Nations Conference on Trade and Development was established in 1964, with headquarters in Geneva. Its members are states; it examines the implications of trade for development.
8. The G8, first established as the G5 in 1975, provides a forum for macroeconomic coordination by the eight leading industrial states.
9. The International Organization of Securities Commissions was established in 1984 with headquarters in Montreal. Its members are official securities regulators. It seeks to formalize the transborder supervision of securities firms.
10. The World Trade Organization, WTO, was established in 1995 with headquarters in Geneva. It incorporates GATT, but has a wider agenda (including agricultural goods, services, and intellectual property as well as manufactured commodities) and greater powers of supervision.

The emergence and existence of these organizations have prompted wide ranging debates within IPE.

Have these organizations and their policies affected rates and forms of world economic growth? Some argue that the Bretton Woods system underpinned the rapid expansion of the world economy between 1950 and 1975 and that when the exchange rate agreements were undone, growth faltered. Others, like Strange (1994a) and Webber and Rigby (1996), are more sceptical of the influence of the Bretton Woods agreement. Similarly, rationalist commentators effectively claim that free trade causes faster economic growth. The World Bank (1993), for example,

claims that rapid economic growth in the newly industrialized and industrializing economies of East Asia was associated with government policies that freed up markets or mimicked markets. Wade (1990) and Hamilton (1986), however, document continued government intervention in the economies of Taiwan and Korea, and argue that the strategic qualities of this intervention allowed these two places to escape the position in the international division of labor to which they seemed to be assigned in early 1950s.

What have the organizations and their policies done for individual countries? The sources of global policies, and the implications of structural adjustment programs since the Third World debt crisis of the early 1980s, have been debated by Lever and Huhne (1985), Lombard (1985), Branford and Kucinski (1988), Sachs (1989), Ghai (1992), George (1992), Volcker and Gyohten (1992), Lehman (1993), and Ould-Mey (1994). Those debates have been reignited by the currency crisis in East Asia since mid-1997. The causes of the East Asian currency crisis have been widely argued. Was the crisis fundamentally a matter of:

- policy mistakes, corruption and non-transparent government–business relations in the Third World (as argued by the IMF) *or*
- the increasing availability of European and American short-term finance and reduced controls over its use, which have reoriented policy towards the short term (rather than the long) and have privileged speculation in assets rather than investment in production (as argued by Wade, 1998) *or*
- a shift in the model of development from one in which exports provided the engine of growth, to one in which exports and imports grow at approximately the same rate while capital inflows fuel rates of growth of productive capacity that exceed the rate of growth of demand (as I would argue)?

Or should we redirect our attention away from East Asia as the site of the cause toward the organization of the financial system and the manner in which it encourages speculation in and manipulation of the currencies of other peoples' daily lives? These questions are not merely academic, for the IMF has deployed its answer to justify its demand that Indonesia, Korea, and Thailand all liberalize their economies in return for assistance. Critics who follow Wade would focus on the need to control short-term capital flows more carefully. Or perhaps the system of currency speculation needs to be regulated? Peoples' lives depend on such policy choices.²²

Which states have sought to develop these organizations and have been most influential in directing their evolution and policies? Do these policies represent an emerging consensus within the organizations or of the power of the few? Whence comes this power and what are the bargains involved in implementing it?

Why have (some) states encouraged free flows of goods, services and capital? Is such support a matter of rational politics, following "the national interest"? This is the position of the IMF (Fischer, 1998) as well as of the WTO (1995), which argued that protectionism in the USA in the 1930s converted a recession into a depression. Is it a matter of sectional interests (and whose)? (See also the next section.) And if so, why have those sectional interests become more powerful lately? What ideologies have underpinned the development of free trade ideas? What is the

language of the free trade agenda? Quiggin (1996), Dunkley (1997) and Argy (1998) argue these issues.

States and markets

One crucial debate within IPE over globalization concerns its implications for state power. Some regard globalization as inevitable, a force imposed on countries from outside (Cox, 1994; Catley, 1996). The state is being imposed upon and so losing its ability to set and to follow national agendas (Ohmae, 1990 is a forceful exponent of this view). Typically, rationalists are not perturbed by this purported trend. Reus-Smit (1996) argues, however, that globalization is not a process imposed on the state from outside. Rather, the global economy is a structure that is being created by the process of globalization. The structure invites compliance from states, corporations, and other organizations in the global economy; in turn, the actions that comprise that compliance enhance the process of globalization and so strengthen the structure of the global economy. The global economy, then, is a structure that is being produced by the actions of states, corporations, and other organizations; actions that are in response to existing conditions. In this interpretation, state actions and the global economy are causing one another.

For example, states' financial policies and the integration of a global financial system have proved mutually constitutive. The histories of the rise and demise of Bretton Woods provided by Daly and Logan (1989), Ingham (1994) and Strange (1994b) all point to the crucial role of the growth of Eurodollar markets in the 1960s and 1970s in forcing the US Government to abandon the gold-dollar standard and to deregulate the value of the \$US. Certainly, the financial market here exerted power over US Government policies. However, past political decisions strengthened the hand of markets now: the Eurodollar market was not an amorphous, global entity, outside the control of any state. Rather, it was constituted by a series of transactions, orchestrated primarily through British banks, which (being in dollars) were not regulated by the British Government. In other words, the Eurodollar market was made possible by the particular structure of financial regulations put in place by states after 1945. Furthermore, the growth of the Eurodollar market owed much to economic and military policies of the United States, including the huge military expenditures abroad in the 1950s and the deficit financing of the Vietnam War.

This argument implies that the policy choices of states depend not only on the global economy (Weiss, 1998 makes an extended argument that the powerless state is a myth). Internal conditions within states influence policy towards the global economy, because state, corporate, and organizational responses to the global economy depend on internal conditions, strategic decisions, and future expectations.

In Australia, for example, the internal conditions affecting the response of the state to the global economy include the structure of class and fractional interests inherited from past economic conditions (Webber, 2000 has a fuller account). After World War II, Australia's growth strategy involved *import-substitution*²³ by industrialization (initially behind tariff barriers) and a program of immigration that provided both labor and markets for its new manufacturing industries. The strategy also involved centralized, state-regulated wage bargaining. These policies "taxed"

Australia's export-oriented rural sector through high exchange rates, which lowered the prices received abroad for rural products while raising the prices paid by the export sector for domestic manufactured products. At the same time the wage bargaining system provided an institutional means whereby the "taxes" were passed on, in part, to workers. In effect this became a national growth strategy, agreed by all the major political players.

This strategy led to the development of a marked dual economy, which has dominated debate over Australia's growth strategy for the last 20 years. One economy is outward oriented, originally comprising the traditional rural industries on which Australia's prosperity initially rested – then mining, and more recently tourism. The finance and communications sectors have also joined this group. Retailing, though oriented to domestic sales, has increasingly found that its interests lie with the export sector, because it depends more and more upon imports. The protected, domestic-oriented economy is dominated by manufacturing. This sector has few trade or financial ties to the export sector, for manufacturing did not develop from local processing of raw materials but from corporations that were enticed to serve a domestic market. The labor movement has been largely aligned with the domestic sector.

By the 1960s, two factors served to splinter the agreement about a growth strategy. In Australia, as in the North Atlantic, world growth faltered (Webber and Rigby, 1996). Secondly, the prospects of the export sector improved relative to those of the domestically oriented sector. A new minerals boom coincided with the emergence of profitability and cost-competitiveness problems among manufacturers. The minerals boom strengthened the forces within the economy (the export-oriented sector) which favored lower levels of protection for manufacturing.

The decades after the mid-1960s saw a wide-ranging debate about the wisdom of continuing the post-war strategy of import-substituting industrialization. The intellectual arguments in that debate were underlain by a change in the industrial structure of the country, and in the relative fortunes of the two strands of the dual economy. Much of Australia's changing policy direction since the early 1980s can be understood not so much in terms of the demands of the global economy as in the light of these shifting power structures within the society. The need to change direction was understood intellectually in the mid-1970s, long before responses to globalization became issues for governments. The demands for change, from newly strengthening power blocs, emerged from old-fashioned demands for competitiveness in export markets, not from new questions posed by globalization.²⁴

Certainly, the global financial system constrains state action. Yet the internationalization of Australia's manufacturing sector since the mid-1980s has reflected a state-led strategy that evolved gradually since the mid-1960s in response to the failure of the old strategy, new configurations of social power, and a new popularity of hyper-liberal views. There remains evidence of vacillation about the precise form of the new strategy. Nevertheless, it has been the state that has orchestrated the internationalization of manufacturing in Australia: globalization produced by the state.

Such changes in policy are less a retreat of the state in the face of global pressure, and more the creation of conditions under which capitalist organizations can use global forms to develop and prosper. Globalization is a process in which business and state activities operate across national borders, take advantage of differences

created by the existence of borders, and thereby equalize values more completely. It thus reflects the intersection of state regulation and corporate response (Piccioto, 1989). The Australian state, like other states, has participated in creating the conditions under which the borders of Australian economic identity have become fluid and permeable. As this has happened, new powerful actors – especially global financial institutions – have emerged to challenge the state's capacity to set goals and tactics. Other actors have clearly lost power: over the last 30 years, outwardly-oriented forces have gained power at the expense of the domestically oriented sector and, more recently, the union movement has been a notable casualty. But this does not imply that the state has diminished capacity.

Globalization and values

The two major camps of IPE offer quite different assessments of the implications of the evolution of a global economy. The argument between these extremes is clouded, however, by the fact they give different priorities to the different values that Strange has identified.

The primary rationalist justification given for the changes promoted by the institutions of economic governance is increased *wealth*. For example, the OECD (1997) argues that a new global age is taking shape, in which all countries can participate. Provided governments liberalize trade and investment, maintain macro-economic discipline, reform product and labor markets, and strengthen financial systems and implement effective environmental policies, then we are promised a large increase in prosperity and welfare across the world. The OECD has also promised greater political *security* after liberalization and integration. For those who live on the edge of survival, the World Bank (1996) is also pointing the way to greater personal security.

The standard structural adjustment program, currently being implemented in Indonesia and propagated in other countries, also offers more personal political *freedom*, at least of a certain kind. Ouattara²⁵ (1988) indicates the IMF's current interpretation of the needs: transparency and accountability in government; stronger banking systems that are less driven by personal favoritism; liberal capital flows; transparent regulation of business; reductions in unproductive government expenditure; more expenditure on health care and education; social protection; and dialogue with opposition groups. This is classic rationalism. Such political programs finally promise improved economic justice for people.

Yet, there remain doubts. The distribution of the benefits of globalization has been highly uneven, both between countries and within them. The benefits of economic integration are unequally distributed between developing and industrial societies (as groups) and between individual developing countries, and the global distribution of income has deteriorated over the past few decades (Griffin and Khan, 1992). The same is true within individual countries (Argy, 1998), as class relations are changing (Wilkin, 1996). The relative power of men and women is also changing, often not for the better (see reviews in Connelly, 1996; Ward and Pyle, 1995; Barber, 1996). Globalization is doing little for the environment in the Third World (Mukta, 1995; Salleh, 1995) or the First (Dunkley, 1997), and the development program of the institutions of governance seems little but the reimposition of Western imperial

power (Mehmet, 1995). Marxists thus would argue that, to a large degree, globalization represents the emergence of global markets, increasingly dominated by capitalist modes of production. Their valuation of this tendency would reflect their preoccupation with justice, personal security, and freedom – as mediated by the social relations of production – rather than with wealth.

Conclusion

The geography of the world economy is being remade. Understanding this new economic geography must become one of the central tasks of new generations of economic geographers. There are, of course, important questions about the internal economic geography of countries; but these internal questions are increasingly framed in the context of presumed global changes. Geographers thus need to give their answers to questions such as:

- Are states losing their capacity to act? Many conservatives (seeking reduced state capacity) and radicals (who deplore it) argue that globalization necessarily means reduced state capacity. The evidence is not good, however, and geographical variation implies a theoretical basis for explaining states that lies outside the bounds of traditional thinking in international political economy. It is not at all clear that this question is even well framed.
- How are we to understand the emergence of institutions of international environmental and economic governance? These have both radical (e.g. globalized green organization) and conservative (e.g. global economic institution) elements. But do such institutions constrain states or popular movements and under what circumstances?
- What are we to make of the variable progress of new arrangements for regional economic and political integration? The political, economic, and scale-altering implications of these arrangements are in some cases clear, but others have a less obvious political economic geography.
- What have been the history and implications of global trade, production, (and labor)? Our understandings of these elements have long been dominated by orthodox thinking, based on ideas that assume equilibrium outcomes and homogenous industries (see Plummer, this volume). What if we understand change as occurring away from equilibrium, and industries as heterogenous and locally variable?
- What are the theoretical and practical implications of the increasing dominance of finance over production? Perhaps the key event of the 1990s – in terms of its impact on our understanding that the world economy is being remade – was the East Asian financial crisis that emerged in mid-1997. It demonstrated that finance and financial flows dominate trade and production capital. How has this new economy emerged and what does it mean for our lives?
- What are the political economy of poverty, hunger, and development, and the international political economy of race, sexuality, and gender? These are not new questions, but they have received precious few answers from economic geographers. They need to become central both within the discipline and in answers to the questions posed above.

The questions are huge and they are asked both outside as well as within academia. If geographers do not give geographical answers to these questions, then the difference that geography makes will be ignored in social understandings of the new world economy. The questions are not simply about the economy, however: they concern politics as well – the deployment of power. Nor are they simply global issues: they reflect concerns about local, daily lives. These characteristics mean – as I hope you can see from the argument of this chapter – that international political economy is a useful theoretical framework from which to begin to seek answers to such questions.

Endnotes

1. There are many good introductions to international relations and IPE. An excellent text, which is fair to all major approaches, is Baylis and Smith (1997). A more challenging introduction to IPE is Strange (1994a). For a political geographical contribution to IPE, which is, however, gender-blind, see Agnew and Corbridge (1995). See, too, Agnew (1998).
2. An excellent introduction to economic theories is to be found in Cole et al. (1983).
3. However, realist and liberal thinking has recently converged and they are now simply varieties of international relations' equivalents of subjective preference theory.
4. For good surveys of realist thought, see Smith (1986), Hollis and Smith (1990: Chapter 5).
5. Some realists regard human nature as they key principle of international politics: individuals are first and foremost self-interested (Morgenthau, 1978).
6. On the development and significance of transnational organizations, see Dicken (1998); on human rights organizations, see Willetts (1996). A good introduction to the ideology and activities of these organizations is in their WWW pages.
See: <http://www.wto.org/>, <http://www.worldbank.org/>, <http://www.imf.org/>, http://www.oecd.org/publications/observer/index_en.html.
For a directory of humanitarian organizations, see <http://www.reliefweb.int/library/contacts/dirhomepage>.
You do, though, need to read between the lines of what are public relations documents.
7. On the debate between the two, see Kegley (1995).
8. A regime is a set "of implicit or explicit principles, norms, rules, and decisionmaking procedures around which actors' expectations converge in a given area of international relations" (Krasner, 1983, p. 2). One of the most significant of these has been the liberal international economic regime, under US leadership, underpinned by free trade, stable monetary systems, and stable domestic economies. This regime has been implemented through the General Agreement on Tariffs and Trade (GATT), the IMF (IMF), and the International Bank for Reconstruction and Development (World Bank). On the liberal theory of regimes, see Zacher (1996).
9. For a geographical critique, see Harvey (1987).
10. Constitutive views of social science believe that theoretical and empirical research is itself part of the social world and helps to construct that world: theory is not separate from social reality; therefore appeals to social reality are not independent tests of a theory's validity. By contrast, explanatory views regard the world as external to the theories that describe them.
11. Foundationalism is the thesis that all truth claims can be judged true or false, either logically (derived from prior theoretical statements, themselves believed to be true) or empirically (by reference to the external world).

12. Rationalism is, however, an important topic of study – see the views of the international institutions discussed in the section on globalization and state capacity.
13. Walker (this volume) introduces such ideas. See also Cole et al. (1983).
14. Like all definitions in the social sciences, this definition of power is theoretically loaded. Other definitions can be found in Baylis and Smith (1997), Cox (1987), Stubbs and Underhill (1994).
15. On the meaning and sources of state power, see Weiss (1998).
16. Theories of the capitalist state differ widely; for a survey, see Painter (this volume). For a discussion of class, see Sadler (this volume).
17. There are many definitions. Robertson (1992) identifies globalization as the development of a global society or of the consciousness of the world as a single place. Giddens (1996) identifies globalization as the intensification of action at a distance, so that local happenings are shaped by events occurring far away.
18. That is: Marxists argue that the social relations involved in state production are quite different from those involved in private, capitalist production. Rationalists do not regard Marxists' identification of the social relations as either accurate or important and instead make pragmatic distinctions between the profit-oriented motives of business people and the bureaucratic motives of state officials.
19. This is one test of an adequate theoretical definition: does it lead to useful empirical work?
20. Hirst and Thompson (1996, p. 20), cynical about the extent of globalization, observe that world trade exceeded 30 percent of global output just before the outbreak of World War I. Understanding the institutional structure that underpinned the internationalization of economic activities in the late nineteenth century remains an important research task.
21. Actually, the Bretton Woods agreement called for a somewhat different organization, the International Trade Organization. GATT was a weaker organization than originally foreseen. On the emergence of GATT, see Wilcox (1949), Spero (1985) and Dryden (1995).
22. Both the earlier crises and the East Asian experience since 1997 lead to additional questions. Concerning the internal politics of structural adjustment: why did some states accept responsibility for large private debts and then agree to IMF/World Bank terms whereas others (such as Malaysia) sought to remain independent of the IMF? What have been the implications of structural adjustment for different production sectors and classes, political and social cultures, environments?
23. Import-substitution is a model of industrialization in which the state seeks to encourage corporations to invest by offering a protected domestic market. The market may be protected by tariffs or quotas or (less commonly) by agreements that government departments will purchase preferentially from domestic corporations. Sometimes, import-substitution is contrasted to *export-orientation*, in which the state encourages corporations by providing incentives for them to export their products.
24. The period after 1980 saw changes in the form of the state, as bureaucrats trained in economics came to dominate the bureaucracy, as business-derived management practices replaced the careerist public service ethos of the 1950s bureaucracy, and as the central departments of finance, treasury, and the prime minister came to power over the "line" departments of trade, social services, and industries. See also Cox (1987, pp. 211–67).
25. Alassane D. Ouattara was Deputy Managing Director of the IMF.

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