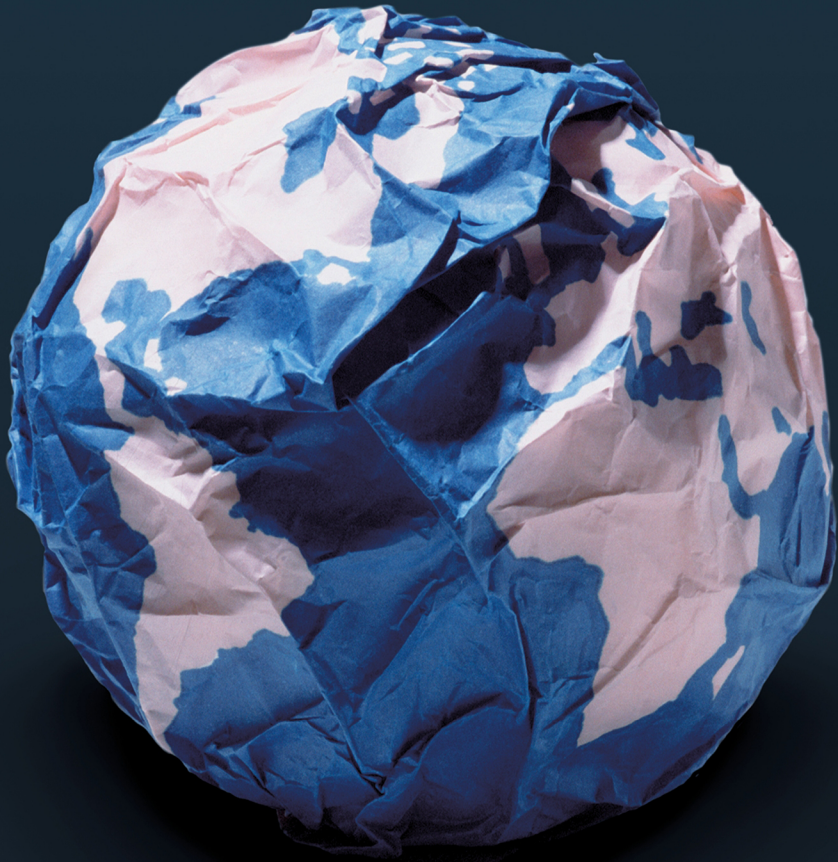


6TH EDITION

GLOBAL POLITICAL ECONOMY

EVOLUTION AND DYNAMICS



ROBERT O'BRIEN AND MARC WILLIAMS

B L O O M S B U R Y

‘In this sixth edition of *Global Political Economy*, Robert O’Brien and Marc Williams have taken a superb global political economy text and made it even better. Often the international political economy is presented as a set of disconnected contemporary issues, but this book is refreshing because it takes history and context seriously. It treats the complex theories of global political economy thoroughly and in a balanced way that is easy for students to understand. The book integrates these theories into well researched and up-to-date chapters. It is an invaluable tool for both students and teachers of global political economy.’

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‘*Global Political Economy* is a mainstay reference in IR teaching, and O’Brien and Williams manage to keep it remarkably relevant and useful in this sixth edition. Their combination of history, theoretical foundations and current themes continues to guide readers to a profound understanding of the subject.’

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‘*Global Political Economy* by O’Brien and Williams is the core textbook on my second-year GPE module. It provides an accessible introduction to the theoretical perspectives on GPE, the evolution of the global economy and key issues in GPE. The new version builds on and updates the previous version to include key developments in GPE such as the growth in trade protectionism and the impact of blockchain and AI, as well as new and updated information boxes on key issues, ensuring that it will continue to be an essential resource for students.’

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‘I have successfully used earlier editions of this engaging book in my introductory IPE courses. This new edition takes account of key developments in the world and in the field without losing a distinctive historical and conceptual perspective. Students will find it comprehensive and accessible.’

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‘I am very excited to see the new edition. The most comprehensive, theoretically-balanced, historically-grounded and policy-relevant IPE text currently available now includes the most important new developments in the world economy.’

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‘Now in its sixth edition, this comprehensive textbook has stood the test of time. It provides historical and theoretical context for a wide range of issues and debates in international political economy and the most recent edition offers much-needed perspective on unfolding developments, ranging from the rise of economic nationalism, the globalisation of state capitalism, rapid technological change and climate change.’

Lauge Poulsen, *University College, London, UK*

‘The updated edition of O’Brien & Williams absolutely delivers on its promise. My students will enjoy the book’s clear language, and will find its renewed emphasis on contemporary controversies to be highly engaging, practical and informative. *Global Political Economy* deserves to be the standard introduction to this growing field.’

Adam Sneyd, *University of Guelph, Canada*

'This new edition of *Global Political Economy* provides an invaluable introduction to the field that is at once insightful, accessible and comprehensive. Readers will come away from this book with a clear understanding of the historical evolution of the global political economy, a solid grasp of the theoretical debates in the field and a rich appreciation of key contemporary issues and challenges.'

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'O'Brien and Williams provide a comprehensive, sophisticated, yet accessible treatment of the key ideas every student of international political economy should know. From the long-range and truly global historical perspective, to the latest theoretical debates and contemporary issues, instructors will find a lot to choose from in this book, both for introductory and advanced undergraduate IPE courses.'

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'This has been an outstanding textbook in global political economy for some time, particularly because of its combined treatment of both the evolution of the world economy and its contemporary dynamics. By updating the book to take cognizance of events right up to the very recent past, O'Brien and Williams have ensured that the book remains intensely relevant to our contemporary reality.'

John Serieux, *University of Manitoba, Canada*

'O'Brien and Williams provide a highly accessible yet thorough guide to the wide-ranging and fast-evolving field of global political economy. The new edition grounds key theoretical and empirical developments within historically informed considerations of contemporary challenges. The coverage, context and clarity this textbook offers make it the most valuable introduction to an evolving and ever dynamic global political economy.'

Malcolm Campbell-Verduyn, *University of Groningen, the Netherlands*

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GLOBAL
POLITICAL
ECONOMY
EVOLUTION & DYNAMICS

ROBERT O'BRIEN & MARC WILLIAMS

6TH EDITION

BLOOMSBURY ACADEMIC
LONDON • NEW YORK • OXFORD • NEW DELHI • SYDNEY

*To our daughters
Isabella and Louisa*

The world is yours to explore and improve

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PREFACE TO THE SIXTH EDITION

Since the last edition in 2016, there has been a dramatic rise in economic nationalism in several countries and a weakening of the liberal international economic order. It is also noticeable how rapid technological change has unleashed new forms of economic activity and challenged old business models. These dramatic events have been addressed in the text, but they are still unfolding as we finish the update. As in previous editions, we have drawn on a historical perspective to put these developments in a longer term context. Our goal is to provide readers and students with tools that will enable them to understand and explain developments in the global political economy.

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

have greatly benefited from their comments, even if we are not able to respond adequately to all the advice. We also owe an ongoing debt to present and former colleagues and students at the universities of Sussex, New South Wales and McMaster. Numerous instructors and students at other universities have also provided helpful feedback. Our textbook now also appears in Bangla, Greek and Chinese translations and we thank the publishers, students and academics in those countries interested in our work. Finally, thanks go to our former commissioning editors, Steven Kennedy and Stephen Wenham, and our present commissioning editor Andrew Malvern at Red Globe Press for their support and guidance. Although we greatly appreciate everyone's help, the responsibility for errors remains ours alone.

ROBERT O'BRIEN, Dundas
MARC WILLIAMS, Sydney

CHANGES TO THE SIXTH EDITION

The text has been revised throughout to give greater emphasis to four key themes:

- rising economic nationalism
- growing conflict over economic inequality
- social and economic disruption from automation and artificial intelligence
- the threat of climate change.

Chapter by chapter changes include:

Chapter 1. Theories of Global Political Economy

- New material on economic nationalism with Brexit and the election of Donald Trump.
- Liberalism section supplemented by material on neoliberalism.

Chapter 3. Forging a World Economy 1400–1800

- New material on the Silk Road, the East India Company and corporate power.

Chapter 5. Growing a Global Economy 1945–2019

- Brings the discussion up to date to 2019.

Chapter 6. Trade

- New material updating TRIPS and Special and Differential Treatment at WTO.
- New discussion of US protectionism, America First trade policies and rising trade tensions.

Chapter 7. Production

- Updated numerous figures and tables with the latest statistics.

Chapter 8. The Global Financial System

- Updates on Sovereign Wealth Funds, convertibility of renminbi, Argentinian debt and the 2008 financial crisis a decade later.

Chapter 9. Global Division of Labour

- New section on ‘automation’ and the ‘gig economy’ in the production process section.
- New issues section on economic inequality and insecurity.
- New material covering automation and employment, flexicurity, regulating Uber and philanthrocapitalism.

Chapter 10. Gender

- New material on the gender pay gap at the FIFA World Cups, gender and SDGs, global sex slavery, human trafficking and the #MeToo movement.

Chapter 11. Economic Development

- More emphasis on the Sustainable Development Goals and China as a development actor.

Chapter 12. Environment

- Climate section updated and moved to be the first of the Key Issues.
- New material on pricing carbon, Greta Thunberg and the school strike for climate.

Chapter 13. Knowledge

- Chapter title changed from ‘Ideas’ to ‘Knowledge’ to reflect the increased importance of ideas and technology in the revised chapter.
- New Issues section on Blockchain Utopias and AI Dystopias. Covers the political implications for state, finance and business, surveillance capitalism and threats of super intelligence,
- New material on Bitcoin and Right-wing Politics, as well as the Chinese Social Credit System.

Chapter 14. Security

- Condensed discussion of concepts of security.
- New material on US steel tariffs against allies, Russian hacking of US elections via Facebook, the dispute over Huawei and 5G networks in the US and Australia, and US-Chinese technology conflict.

Chapter 15. Governing the Global Economy

- Updated discussion of BRICS and AIIB.
- Revised Key Issues section to discuss the fate of the liberal international order and ecological sustainability.
- New material on China’s Belt and Road Initiative.

LIST OF ABBREVIATIONS

AI	artificial intelligence	IBRD	International Bank for Reconstruction and Development
AIIB	Asian Infrastructure Investment Bank		
APEC	Asia-Pacific Economic Cooperation	ICFTU	International Confederation of Free Trade Unions
ASEAN	Association of Southeast Asian Nations	ICT	information and communications technology
BIS	Bank for International Settlements	IFFs	illicit financial flows
BRICS	Brazil, Russia, India, China, South Africa	ILO	International Labour Organization
COP	Conferences of the Parties	IMF	International Monetary Fund
ECB	European Central Bank	IMS	international monetary system
EEC	European Economic Community	IPE	international political economy
EIC	East India Company	IPR	intellectual property rights
EOI	export-oriented industrialization	IR	international relations
EPZ	export processing zone	ISI	import substitution industrialization
ERM	exchange rate mechanism	IT	information technology
EU	European Union	ITO	International Trade Organization
FDI	foreign direct investment		
FOC	flag of convenience	M&As	mergers and acquisitions
FSF	Financial Stability Forum	MDGs	Millennium Development Goals
G7/G8/G20	Group of 7/Group of 8/Group of 20	MDRI	Multilateral Debt Relief Initiative
GATS	General Agreement on Trade in Services (WTO)	MERCOSUR	Southern Common Market
GATT	General Agreement on Tariffs and Trade	MFA	Multifibre Arrangement
GDP	gross domestic product	MFN	most favoured nation
GNI	gross national income	NAFTA	North American Free Trade Agreement
GNP	gross national product	NATO	North Atlantic Treaty Organization
GPE	global political economy		
GVC	global value chain	NGOs	nongovernmental organizations
HDI	Human Development Index	NICs	newly industrializing countries
HIPC	heavily indebted poor countries	NIEO	New International Economic Order
HIV/AIDS	human immunodeficiency virus/acquired immunodeficiency syndrome	NTBs	non-tariff barriers

OECD	Organisation for Economic Co-operation and Development	TRIPS	Trade-Related Aspects of Intellectual Property Rights
OPEC	Organization of Petroleum Exporting Countries	TTIP	Transatlantic Trade and Investment Partnership
R&D	research and development	UN	United Nations
RTA	regional trade agreement	UNCED	United Nations Conference on Environment and Development
S&D	special and differential treatment	UNCTAD	United Nations Conference on Trade and Development
SAPs	structural adjustment programmes	UNDP	United Nations Development Programme
SDGs	Sustainable Development Goals	UNFCCC	United Nations Framework Convention on Climate Change
SPS	Sanitary and Phytosanitary Measures	UNGA	United Nations General Assembly
TLAs	transnational land acquisitions	WHO	World Health Organization
TNC	transnational corporation	WTO	World Trade Organization
TPP	Trans-Pacific Partnership		
TRIMs	Trade-Related Investment Measures		

INTRODUCTION

Plan of the Book

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

Part 2 (Chapters 3–5) considers the evolution and eventual domination of a European-based world economy. Chapter 3 provides an overview of key historical processes that led to the transformation of regional economies and the beginnings of the creation of the contemporary global economic system. It is organized into two main sections. The first contrasts various regional political economies – the Middle East, China, India, Africa, the Americas and Europe – in the early 15th century. The second charts the expansion of a European-centred international political economy into other areas of the world, namely Africa, the Americas and Asia. It stresses the variety of patterns of interaction, including slavery, genocide, war and trade, and assesses the varied pattern of European–non-European interaction. Chapter 4 examines the rise and fall of a liberal world system from 1800 until 1945. It begins by looking at the domestic and international basis of British power in the mid-19th century, the development of Pax Britannica as a structure of international governance and the rise of imperialism in the 19th century. It concludes by analysing the descent of Europe and the world into war and depression. Chapter 5 turns its attention to the postwar era. The first section examines the Cold War era and the distinct Western, Communist and Southern political economies. The second part turns its attention to the post-Cold War era from 1989 to 2019. The competition between forms of capitalism and the accompanying state transformation, the impact of the information revolution and the proliferation of the international organization as a form of global governance are highlighted.

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

texts, we have classified the diverse practices in the world economy into certain key frameworks. We do not claim that any single framework is dominant, but we do suggest that the 10 frameworks – trade, production, finance, labour, gender, development, environment, ideas, security and governance – analysed in this book constitute critical spheres of activity in the world economy.

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

Globalization

Writing in 2019, it is impossible to ignore the phenomenon of globalization. An intense debate continues between proponents and opponents of what may be termed ‘globalization studies’. The book enters the globalization debate through a number of its concerns. One of the central issues of contention is that of historical evidence. In delineating the scope, nature, depth and breadth of change in the global economy, this book contributes to this debate. Moreover, insofar as globalization is a process of historical change rather than a specific condition, the evidence here contributes to an assessment of this process. Second, in charting the evolution of the modern state, the book confronts a central issue in the globalization debate. We reveal the historical development of the modern state, and consequently challenge arguments that present essential portraits of the state.

Our analysis in Part 3 is informed by the evolving nature of globalization. We believe that the intensification of globalization since the early 1970s has changed the world political economy from an international to a global undertaking. While there are some who suggest that talk of globalization is overblown, we believe that the decreasing significance of time and space as barriers to human interaction is having a profound impact on the organization of production, the exchange of products and services, the circulation of finance, the gendered division of labour, the possibilities for development, the ecology of the planet, the transmission and power of ideas, the pursuit of security, the mobilization of political forces and forms of national and international governance. The spread of economic relations worldwide has had a significant impact on how people live their lives and how governance is practised. When the first edition of this book was written in 2004, the analysis of globalization was relatively optimistic, focusing on the benefits of a more connected world. Today, the view is much more sceptical. Rising economic nationalism, weakening international governance structures, disrupting technological innovation and the threat of ecological breakdown loom large over the global political economy. The following chapters explore these issues in further detail.



PART 1

THEORETICAL PERSPECTIVES

Chapter 1

Theories of Global Political Economy

Chapter 2

International Political Economy and its
Methods

1

THEORIES OF GLOBAL POLITICAL ECONOMY

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

Understanding the Global Political Economy

Since the end of the Second World War, millions of people around the world have been concerned with improving their quality of life and developing their economies. In the late 1990s a puzzling thing happened when a number of countries that had previously been labelled ‘development miracles’ experienced severe economic setbacks. Explanations for the economic and political chaos varied depending on the analyst.

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

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

A second story stresses the significance of state power in creating and exploiting the crisis (Weiss, 1999). In this view, the problem arose because developing countries liberalized their economies

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Table 1.1 Interpretations of the Asian financial crisis

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

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

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

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

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

Every person utilizes theory to run their life even if they do not engage in explicit theorizing. Actors in the global political economy and those studying it use a variety of theories for a variety

of purposes. Some people are interested in prediction. For example, they would like to be able to predict what type of monetary system would lead to stable economic growth or the likelihood of war between democratic states. Others believe that prediction is nearly impossible because so many factors come together to influence events. These people are more likely to use theory in an attempt to understand the world rather than to predict what will happen next.

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

The Economic Nationalist Perspective

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

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

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

One central question for students of the contemporary global economy relates to the persistence of mercantilist thought. It could be assumed that an economic perspective based on unrivalled state power is of limited relevance in a world characterized by globalization. While this may be correct, contemporary economic nationalist thought should not be dismissed as some atavistic throwback to an earlier era. It reflects, on the one hand, an acknowledgement that states remain at the centre of power within the global political economy and, on the other, that there is an intimate connection

between power and wealth. Economic nationalist thinking, whether it is termed ‘neomercantilism’ or ‘statism’, remains important in both analysis and practice in the contemporary global economy. For example, states may protect strategic industries against foreign rivals or attempt to export more than they import for long periods of time. Japan has been accused of being a mercantilist state because in comparison with other advanced industrialized countries its economy is relatively closed. Even states that are generally seen to follow liberal policies, such as the US, will pursue economic nationalist policies in particular sectors. For example, the US uses defence spending to support its commercial aerospace industry.

Key actors

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

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

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

Key dynamics

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

IPE scholars working in this perspective argue that the nature of the global economy reflects the interests of the most powerful states. For example, Krasner (1976) has suggested that systems of free trade are most likely when a single power dominates the international system.

This dominant, or hegemonic, power is needed to provide leadership and absorb the short-term costs of maintaining a free-trade regime. Analysts such as Gilpin (1981) have argued that changes in the distribution of power between states increase the chances of conflict in the international system. Because of this view, considerable time can be devoted to contemplating the rise and fall of great powers (Gilpin, 1987; Kennedy, 1987).

In the heated debate over globalization, both defensive and sceptical economic nationalist perspectives can be heard. The defensive posture arises from a fear that globalization may prevent state actors from fulfilling their goals. This is, of course, merely the continuation of the long-held suspicion of economic exchange held by economic nationalist thinkers. Unlike proponents of free trade, economic nationalists believe that the gains from trade are unequally distributed and favour those with greater economic and political power. Thus, defensive economic nationalists can recognize globalization as a threat and seek to counter its impacts. On the other hand, sceptical economic nationalists reject many of the current liberal arguments about globalization. They contend that globalization is largely a myth and that the power of the state remains undiminished. Since economic actors are subordinate to political power, these analysts argue that the policy environment conducive to globalization has been created by states. It therefore follows that states can alter this environment by changing their policies. Moreover, it can be claimed that since states remain powerful actors and the only legitimate centres of authority in the modern world, nothing significant has occurred in the global political economy.

Conflict and cooperation

Within IR theory, realism, with its focus on the primacy of the state, the anarchical nature of IR and the inevitability of conflict, provides the foundation for economic nationalist thought. If realism is the perspective in international politics, economic nationalism is its equivalent doctrine in political economy. Both share a commitment to the state and the role of power in social life. Power-based theories such as economic nationalism and realism view the world as anarchic – lacking any central authority. Relations between states are thus characterized by unending conflict and the pursuit of power.

International economic relations are therefore perceived as a zero-sum game where the gain of one party necessitates a loss for another party. The system's structure is perceived in conflictual terms. While economic nationalists believe that market relations can be positive, they think that such activity can also be negative. Since participating in markets is potentially negative, economic nationalists argue in favour of state control of key economic activities or for state assistance to central economic sectors. The continued salience of economic nationalist perspectives is easily visible today in production, consumption, trade and investment. In terms of production, economic nationalist sentiment is visible in arguments concerning the continued production of some good or service within particular national borders. This can be seen in terms of security concerns: that is, a state should not be reliant on the import of a specific good, because in times of conflict, this good may become unavailable. Some countries, such as France, protect their agricultural sector, while the US defends defence technology. It can also be seen in terms of the preservation of the cultural values of the nation. For example, many economic nationalists believe that it is vital to maintain the production of certain cultural products, such as films and music, within national borders. In relation to consumption, economic nationalist arguments have been made against cultural imperialism, that is, in favour of the view that the import of some products pollutes the nation through the introduction of foreign values. Whereas a liberal would argue that the sovereignty of the consumer is paramount, economic nationalists maintain that the values of the nation are more important. From the foregoing, it is easy to see how, in the sphere of exchange, economic nationalists support the protection of domestic industries. Furthermore, economic nationalist thought is behind arguments that seek to restrict foreign investment and supports the 'rights' of local investors over foreigners.

Economic nationalism today

Although the dominant approach to global political economy as espoused by the leading international institutions and economic theorists is liberalism, economic nationalism continues to inform thinking and action. Countries continue to protect their markets from foreign

Box
1.1

Profile: Susan Strange (1923–98) – unorthodox realist

Susan Strange (2002) admitted that she never meant to become a professor, but ended up in the role after stints in journalism (with the *Observer* and *The Economist*) and working at Chatham House, a British foreign affairs research institute. She eventually became a professor at the London School of Economics and Warwick University.

Strange's theoretical approach is difficult to characterize neatly (Tooze and May, 2002). It contains a strong element of power politics or economic nationalism because it focuses on the exercise of power and pays considerable attention to key state policies in structuring the global economy. Strange takes a realist approach by advising students to focus on the role of interests and constantly ask the question 'Who benefits?' Yet her work is also unorthodox because she urges observers to take account of the role of markets, corporations and technological innovations in changing the environment in which the state operates. In a series of exchanges with US IPE scholars, Strange continually went against the mainstream by variously arguing that the study of regimes was faddish and mistaken (1982), that US hegemony was not declining in the 1980s (1987) and that globalization was transforming the nature of state authority (1996).

Strange viewed IPE as a method of understanding the world that focused on the relationship between markets and authority. She argued that IPE should be an interdisciplinary area that brought together IR and international economics. Her broad approach is set out in a 1988 textbook called *States and Markets*, which argues that in addition to relational power (A forces B to do A's will), power resides in structures. Structural power is the ability to shape the rules of the game in a particular area. Those who create the operating framework for everyone's activities exercise power by eliminating some possibilities and making some outcomes more likely than others. Strange maintained that there were four key structures of power (security, production, finance, knowledge) and numerous secondary structures (transport, trade, energy, welfare). Strange reasoned that since the US exercised considerable structural power in the key structures, talk of decline was mistaken.

In the 1990s, Strange increasingly turned her attention to non-state actors. A major collaboration with a business school professor (Stopford and Strange, 1991) argued that traditional notions of diplomacy being an interstate practice had to be expanded to include state–firm and firm–firm interactions. In a later book, Strange (1996) identified other actors such as business associations, bureaucrats and even mafias that were operating transnationally and undermining the authority of states. Most of Strange's empirical work was in the area of finance and credit. She argued that the creation and control of credit was a significant source of power in the global economy. True to her realist roots, she traced the liberalization and globalization of finance to particular decisions or non-decisions of the most powerful states. Finance was globalized because it suited the interests of the most powerful states (principally the US and the UK). However, Strange also worried that the failure of states to exercise proper regulatory control over financial flows was turning the system into a form of 'casino capitalism' (1986). Her fear was that a widespread financial collapse would lead to a closing of the global economy (1998).

Strange played a prominent role in founding and supporting the study of IPE as an interdisciplinary field in Britain. Her pioneering studies in the field of finance inspired a new generation to examine the power relations flowing around credit issues. Strange's insistence that IPE be an open field of intellectual enquiry influenced the development of the field in Britain by bringing in work from a number of different disciplines. Her stinging criticism of US intellectual trends provided room for British scholars and students to ask different types of questions and use different methodologies from their US counterparts.

competition even though they have committed themselves to free trade. Although protectionism has been reduced as countries have lowered tariffs, many other mechanisms are used to keep out foreign products. Chapter 6 reviews how states have used a variety of reasons to restrict trade, for example health and safety, environmental, cultural, employment, infant industry. Trade in services such as education and healthcare is a particularly sensitive subject, with many states unwilling to open up to foreign competition.

States have actively involved themselves in supporting particular industries, contrary to liberal theory. Many developing countries have relied on their states to boost economic activity, shield domestic industries from competition and direct finance to selected industries. China has enjoyed remarkable economic growth, but has imposed strict conditions on foreign investment, intervened to make sure its currency is relatively cheap and guided finance into particular activities through five-year plans. While benefiting from a generally liberal and open economic system, China has engaged in economic nationalist policies in pursuit of development.

Concerns about economic nationalism increase in times of economic downturn. Politicians and the public may wish to increase discrimination against foreign economies and firms when growth slows in the belief that steps should be taken to support national economies. Such an approach risks retaliation and the closing of world markets, which damages the interest of all states because it reduces the possibility of growth through trade. The protectionist policies of the 1930s are often blamed for worsening the Great Depression and this lesson is used against those advocating economic nationalist policies.

Economic nationalism increased in importance in a number of Western states in 2016. In June of that year British citizens voted to withdraw the UK from the European Union (EU). The Brexit referendum vote indicated that a large number of people wanted to reassert national sovereignty and restrict the movement of foreigners into Britain even if it meant losing access to the EU's large economic market. In November 2016, Donald Trump was elected US president riding a wave of economic and racial grievances. He targeted liberal elites and foreigners as a cause of American decline. The president's inauguration speech reflected an economic nationalist view of the world when he stated:

From this moment on, it's going to be America First. Every decision on trade, on taxes, on immigration, on foreign affairs, will be made to benefit American workers and American families. We must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs. Protection will lead to great prosperity and strength. (Trump, 2016)

Visually, the economic nationalist approach can be represented by a game of marbles (Figure 1.1). The marbles are states, with different attributes, varying in their design, size, strength and beauty. They crash into each other in a competition to determine a winner.

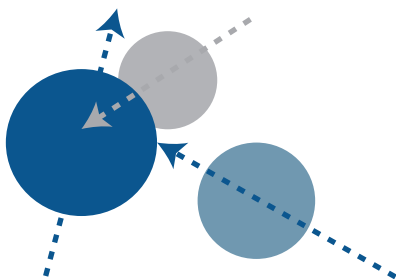


Figure 1.1 Economic nationalism as marbles

The Liberal Perspective

In contrast to the economic nationalist theories, liberals focus on either the individual or a wide range of actors from the state to the corporation to interest groups. They do not see the state as a unitary actor, but as influenced by numerous factors. Rather than stress the inevitability of conflict, liberals search out the conditions for cooperation. They tend to play down the role of force and coercion in human affairs and emphasize the

Box
1.2

Relative versus absolute gains

In many ways, disagreements between economic nationalists and liberals can be traced back to differences over relative and absolute gains. Relative gains refer to one actor doing better or worse compared with another actor. Absolute gains refer to whether an actor is better off compared with a previous point in time. Economic nationalists and their IR cousins (realists) argue that since states are in competition with each other, their primary concern is how a state performs relative to its rivals. Does a particular arrangement increase or decrease the gap between states? In contrast, liberals believe that states are rational and will support measures that will increase their absolute wealth by the greatest amount.

As an example, imagine that the US and China were presented with two economic agreements that would govern their relationship for 20 years. Under agreement A, which involves carefully managing trade between the two countries, the US will grow at an annual rate of 2 per cent and China will grow at an annual rate of 2 per cent. Under agreement B, which involves a broad free-trade deal, the US will grow at an annual rate of 5 per cent and China will grow at an annual rate of 10 per cent. An economic nationalist would opt for agreement A because it delivers similar benefits to both countries, whereas agreement B causes China to grow much faster than the US. Liberals would disagree, arguing that the US should sign agreement B because it would increase growth by 5 per cent each year rather than the meagre 2 per cent of agreement A. The free-trade arrangement will make the US richer and more prosperous than the managed trade agreement. A focus on relative gains would lead policy makers to prefer agreement A, while a focus on absolute gains would lead policy makers to choose agreement B. Which do you think the US should sign?

ability of individuals to choose between attractive courses of action or negotiate their differences. Liberals see the world system as one of interdependence rather than anarchy. States and peoples can cooperate for mutual benefit in the liberal view. Rather than a zero-sum game where one person's gains are another person's losses, liberals see a positive-sum game where the pie grows bigger and everyone gains. Box 1.2 examines the debate over relative versus absolute gains.

Liberal theories of political economy emerged in 18th- and 19th-century Britain alongside the Industrial Revolution. They offered a critique of economic nationalist thought by arguing that protectionism and restriction of economic activity were actually impoverishing states. Scottish moral philosopher Adam Smith ([1776]1983) advocated freeing up commerce and creating larger national and international markets as a method of generating wealth for everyone. Englishman David Ricardo ([1817]1992) introduced the revolutionary theory of comparative advantage, which demonstrated that all nations can benefit from free trade even if they are not as competitive as other states.

Today's global economy is governed largely according to liberal principles. The trade regime is based on the goal of free trade: money flows into and out of most countries without great difficulty and all forms of economic activity are increasingly liberalized. However, there is a wide variety of liberal thought. It ranges from those who see the state fading away in an emerging borderless world dominated by corporations (Ohmae, 1990) to liberal institutionalists (Keohane and Nye, 1977), who stress the continuing importance of the state, but see it enmeshed in webs of interdependence and international organization. David Landes' book *The Wealth and Poverty of Nations* (1998) takes a particular type of liberal approach. It argues that those with liberal values have been most successful in the global economy and implies that these values were freely chosen by people in Europe and the West. However, Landes parts ways with those liberals who argue that individual choice is more significant than cultural institutions.

Key actors

Within the liberal perspective there are a number of key actors. For liberals, the starting point of analysis is the individual. Liberal economic theory, of which neoclassical economic theory is a variant, begins from the analysis of individual wants and preferences and constructs a powerful explanatory framework on this basis. In the context of analysis of the global economy, liberal theorists focus on the behaviour of individuals, firms and states. In contrast to economic nationalism, the key economic actor is the individual rather than the state. Individuals in pursuit of self-interest will maximize the benefits of economic exchange for society. Within liberal theory the firm also plays an important role. Unlike mercantilists who view the firm with a degree of suspicion, liberals see the firm as a source of economic wealth. The state is viewed with hostility by many liberals since it brings politics into the realm of economics. Liberals believe that if individuals are left to freely engage in production, exchange and consumption, all will benefit and that the insertion of state control distorts benefits and adds costs to participants in the market. People engaged in free economic exchange pursuing their own interests create a society-wide harmony of interest. From a liberal perspective, the TNC is a positive force that brings advantages to both home and host countries. From the perspective of the home country, the TNC represents an optimal mix of technology, managerial skill and capital, while for host countries, TNCs boost their economies through the transfer of capital, technology and access to markets.

Key dynamics

For liberal theorists the market lies at the centre of economic life. Economic progress results from the interaction of diverse individuals pursuing their own ends. While liberals acknowledge that market relations are not always optimal, they tend to argue that intervention in the market is most likely to produce suboptimal outcomes. There is, of course, a broad spectrum of liberal thought. It ranges from John Maynard Keynes (1936), whose economic theories laid the foundation for interventionist welfare governments in the immediate postwar period, to Friedrich Hayek (1944), whose free-market philosophy guided the neoliberal revolution of the 1980s. They both subscribe to a belief in the positive role of markets and the ability of the market to lead to prosperity. However, they differ over the importance of market imperfections and the policies that ought to be implemented to deal with market failure.

For liberal theorists, IPE is constituted by a search for wealth. On the whole, open markets will enhance growth and wealth, and firms will disseminate material wealth across the globe. Economic failure in this perspective is often the result of government intervention. Many liberal theorists have been at the forefront of the debate on globalization. For 'hyper-liberals', globalization is not only a reality (indeed, an inevitability), it is a positive force for good. Globalization breaks down artificial (for which read political) barriers and by unleashing the force of production, it can contribute to enhanced happiness for humankind. Thus, hyper-liberals welcome globalization. Keynesian-influenced liberals or those of a reformist stance perceive certain problems with the unfettered operation of the free market and are therefore sensitive to some unwanted consequences of globalization. They support globalization but emphasize the need for attention to market reform.

Conflict and cooperation

Liberal theorists view IR and the IPE as essentially cooperative. Indeed, they believe that market relations will lead to positive outcomes for all. In other words, economic relations are positive sum. A standard liberal theory that exemplifies this belief is the theory of comparative advantage, which shows that even in a situation where one country enjoys a superiority in the production

of all goods and services over a second country, trade between the two countries will benefit both countries. This is explained in more detail in Chapters 4 and 6.

One persistent liberal belief has been that economic nationalist policies lead to conflict. Unlike Marxist writers who denounce the growth of global capitalism as a cause of war, liberal theorists view increased international interaction as a source of prosperity and peace. The liberal belief in the connection between protectionist policies and conflict and the reverse argument, namely that capitalism favours peace, are central to liberal critiques of the international economic order. German philosopher Immanuel Kant ([1795]1991) foresaw an era of perpetual peace when systems of free trade, a coalition of republican states and the fear of destructive warfare would bring about an era of calm and prosperity. Towards the end of the First World War, US President Woodrow Wilson ([1918]1986) advocated liberal principles of free trade, self-determination and the use of international organizations to settle disputes between states.

The framers of international economic institutions after the Second World War were supporters of this view. It was argued that the war had its origins in the economic nationalist policies of the 1930s. As a consequence of the Great Depression, governments resorted to a series of protectionist measures that eroded confidence in international cooperation. As a result of economic nationalist policies, the basis of collective security was shattered and an atmosphere conducive to dictators was created. The shift from economic competition to military conflict was, in this view, inevitable. Hence, there was the need after the war to design institutions to foster international economic cooperation and to include within those institutions mechanisms to prevent states from resorting to competitively nationalist policies.

Within the study of IR, liberal theories of world politics and political economy share assumptions concerning the pluralist nature of the international system and the feasibility of cooperation. Theories of interdependence developed in the 1960s to explain the connection between increased economic exchange and interconnectedness and the long peace among Western nations after 1945. They echo classical liberal political economy. These theories emphasized the economic and political benefits of economic interchange. Interdependence was proffered as both a description of events and a prescription for the solution of conflict.

In the 1980s and 90s, liberals continued to argue that international cooperation was both possible and desirable. In contrast to economic nationalists or realists, liberals argued that international agreements or regimes would maintain international economic order even if hegemonic states declined (Keohane, 1984). With the end of the Cold War and the rapid spread of liberal economic models to many states in the 1990s, it appeared that the liberal faith in cooperation and progress was justified. Some even went so far as to claim that history had ended because the liberal democratic model had triumphed over other forms of social organization (Fukuyama, 1992).

Liberalism today

Liberal neoclassical economics, which stresses the importance of rational decision makers in free markets, dominates the field of economics. International institutions such as the World Trade Organization (WTO) are founded on liberal principles of free trade, while the IMF and the World Bank preach liberal prescriptions to those seeking development funds or loans to see them through financial crises. TNCs urge state leaders to open their markets to the free flow of investment and many government officials eagerly comply. Indeed, many states have bound themselves to an ever more liberal economy through participation in international organizations and international economic agreements such as regional or bilateral free-trade agreements. The market continues to expand by bringing in more and more countries as participants (such as China) and by encompassing a wider range of activities such as services (healthcare, education, childcare, housework).

Liberal thought has a number of significant variants. Although there is general agreement on the importance of markets and international institutions, there is substantial disagreement about the outer boundaries of liberal principles. Should liberal principles apply in every situation or are there some cases where liberalism should be tempered? The 2008 financial crisis reopened the debate among liberals about regulation and the role of government in economic crises. Does self-regulation of financial firms lead to economic efficiency or corruption and financial collapse? Should governments bail out banks with taxpayers' money to maintain economic stability or should banks be allowed to fail to teach them a lesson? How should governments respond to financial and economic crises? What should governments do if economic growth stalls? Is government's role to balance budgets or spend to jump-start economic growth?

One response to these questions has been a form of liberalism (variously called 'embedded liberalism', 'Keynesianism' or 'welfare capitalism'), which argues that governments have an important economic role and must step in to address market failures. Governments should provide a safety net for their citizens, regulate the financial industry to prevent crisis and provide a range of public services. This moderate form of liberalism has been challenged by neo-liberal thinkers.

'Neoliberalism' is a term that refers to an economic and political philosophy that places an emphasis on individual freedom and wellbeing through the expansion of free markets to allocate resources and make decisions (Harvey, 2007). Although there are a number of different schools within neoliberal thought, they generally agree that governments should have a limited role in the economy and regulation should be kept to a minimum. Another term for neoliberalism is 'market fundamentalism' – the belief that markets should have the dominant role in society. Neoliberals support private provision of services such as health and education, minimal regulation of finance or the environment, and the free movement of goods and services across borders. They also support a legal system that strictly enforces private property rights.

Box
1.3

Profile: Robert Keohane (1941–) – liberal institutionalist

Robert Keohane was born into an academic family and began a US teaching career after graduating from Harvard in 1966 (Keohane, 1989a). His academic career has taken him to Stanford, Brandeis, Harvard, Duke and Princeton universities. His research has had a major role in influencing the study of IPE and IR in the US and beyond.

Keohane is a central figure in what has become known as the 'liberal institutionalist' approach to IPE and world politics (1989b). This approach suggests that institutions or sets of rules and norms can have a significant effect on state behaviour if they have mutual interests. Institutions include formal international organizations, international regimes or conventions and customs. Liberal institutionalism was developed as a critique of realist/power politics/economic nationalist approaches to IR and IPE. The emphasis is on how institutions can help states overcome barriers to cooperation. Although Keohane himself prefers to be known simply as an 'institutionalist' (2002, p. 3), the adjective 'liberal' is still useful because it refers to some of the liberal attributes that underlie his approach. These include a focus on the individual and a belief that properly designed international institutions can go some way to creating a more humane global system.

Keohane's first major work was written with Joseph Nye and it argued that there were certain times and issue areas when the assumptions of realist or power politics approaches did not hold sway (Keohane and Nye, 1977). They labelled these situations as 'complex interdependence' and suggested that under certain circumstances states could use international institutions to bolster cooperation. They also argued that, in such situations, cross-border links between officials could lead to outcomes different from those that power politics approaches would have predicted.

In 1984 Keohane published *After Hegemony*. It sought to explain why, contrary to realist assumptions, states continued to cooperate and participate in international agreements even after the major power that sponsored the agreements entered a period of relative decline. This was a significant issue because many analysts were worried about the decline of US power relative to that of other states and feared that this would make the international political economy increasingly unstable. Keohane argued that the benefits of arrangements in issue areas (such as money, oil or trade) or regimes continued independent of the rise or decline of the power of particular states. Regimes exist because they facilitate negotiations between states and allow states to overcome barriers to collective action such as uncertainty. Keohane's work helped to spark increasing attention to the issue of regime creation and maintenance. Indeed, regime theory became a mainstay of US IPE scholarship.

Another important aspect of *After Hegemony* was Keohane's use of economic theory to explain the activity of states. Drawing inspiration from economic theories that claimed to explain the activity of corporations, Keohane analysed state behaviour in terms of market failure, transaction costs and uncertainty. Market failure refers to a situation where transactions do not take place because the market is arranged in such a way as to make otherwise rational activity irrational. In the case of IPE, states might not agree to cooperate because they are unsure of the motives of other states. Regimes help to resolve this market failure by providing information about other states' behaviour and an element of predictability in interstate interactions. States cooperated in international regimes because these regimes solved particular problems such as lack of information and uncertainty about other states' intentions and behaviour. Keohane's use of economic models and theories of rational choice coincided and blended well with the importation of economic models into other areas of US political science. The success of his book and persuasiveness of his argument helped to bolster rational choice methodology in US IPE. Keohane's work has been important in the field of US IPE because it has advanced understanding of how states are able to cooperate through international regimes.

In addition to the internal liberal debate there is also criticism from those who do not accept its basic claims. States may be happy to export into an open liberal market, but reluctant to expose their own industry to competition, as we will see in Chapters 6 and 11 on international trade and development. Harmed by rapid capital flows, other states may seek to intervene in financial markets to slow the movement of money between countries or restrict the conditions under which investment takes place. Other groups may challenge liberalism because they advocate different agendas, such as labour rights (Chapter 9), gender equity (Chapter 10) or environmentalism (Chapter 12). A common criticism is that the liberal view underestimates the significance of powerful firms and states and their ability to distort and manipulate markets.

A visual representation of liberal IPE theory is the cobweb (Figure 1.2), where a giant web of interdependence connects actors such as states, corporations and people in a complex set of relations.

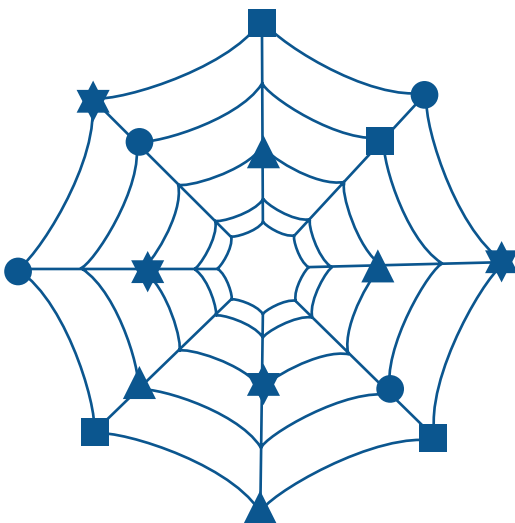


Figure 1.2 Liberalism as a cobweb

The Critical Perspective

Marxist theory emerged in the 19th century in reaction to liberal thought. Marxism's critical approach to liberalism can be seen in a

number of other bodies of thought that move away from the individual and states to consider other units of analysis. They are sometimes called 'critical theories' because they question the way the world is organized and seek to change the world. They are sometimes labelled as 'radical' because they challenge established forms of organization. The three most common variants of critical thought in IPE are Marxist, feminist and environmentalist theories. Poststructuralist and cultural political economy approaches have also recently been applied to IPE. This chapter concentrates on Marxist theories, while feminist theories will be highlighted in Chapter 10, environmental theories in Chapter 12 and poststructuralist theories in Chapter 13.

Marxist theories focus on class and the interests of workers rather than state interests. Writing during the English Industrial Revolution, Karl Marx took issue with the idea of a harmony of interests that the liberals advocated. Marx and Engels, his co-author, discerned an ongoing conflict between workers and capitalists that would only be resolved when the workers seized power (Marx and Engels, [1848]1977). Feminists also see a world of exploitation but their theories look at gender relations between women and men. They seek to uncover how our ideas about what men and women are supposed to be shape the ways in which society is organized. Mary Wollstonecraft ([1792]1992), an 18th-century early feminist writer, criticized male liberal theorists for ignoring the role and interests of women in their political theories. Green theories have taken the environment and the planet as the objects to be highlighted. They examine how people shape and are shaped by the environment. Neo-Gramscian theories, which evolved out of Italian Marxism, stress the role of transnational classes and ideology in their efforts to understand the global economy. We use the term 'critical' as a label for these theories because they are united by a critical attitude to prevailing social arrangements. Here, we focus on Marxism since it is the oldest of the theories grouped under the critical perspectives heading.

These critical theories stress the nature of oppression within and across societies and the struggle for justice waged by or on behalf of workers, women and the environment. Frank's (1998) study, *ReOrient: Global Economy in the Asian Age*, is close to this form of analysis because he stresses the European exploitation of others' resources in the 'rise of the West'. However, he differs from traditional Marxists who have seen Western civilization as being at the forefront of human development because it was the birthplace of capitalism. Frank disputes both the claim that capitalism originated in Europe and that European developments are more significant to world history than developments in Asia.

Key actors

Marxist writers begin with a focus on class as the main 'actor' in the global political economy. They reject the individualism of liberal theory and embrace the collectivist approach of economic nationalist perspectives. However, Marxist theory rejects statism and focuses instead on the significance of class. This focus arises from the Marxist account of capitalist relations, which are predicated on exploitation. The Marxist concept of class has been open to various interpretations and critiques. We define class simply as arising from one's position in the structure of production. Marx defined class in relation to the structure of production, which creates owners of the means of production (the bourgeoisie) and the labourers who sell their labour power to the bourgeoisie (the workers).

Within Marxist writing the firm is an instrument of exploitation. TNCs contribute to the exploitation and oppression of the working class. The centralization and concentration of capital visible in the form of TNCs is a key feature of imperialism, whereby dominance is expressed in the global political economy. In this perspective, the state is the representative of class interests rather than the expression of the harmony of communal interests posited by economic nationalists.

Key dynamics

Dominance and exploitation among and within societies provide the main dynamic for Marxist theories of IPE. Unlike liberals, Marxists view market relations as inherently exploitative. Under capitalism, workers are denied a fair remuneration because capitalists pay workers less than their labour is worth. Marxists view international economic relations as inherently unstable and conflictual because of three tendencies of capitalism:

1. The tendency for the rate of profit to fall sees capitalists engaged in fierce competition with each other, which tends to drive down workers' wages.
2. Capitalism leads to uneven development as some centres increase their wealth and growth at the expense of others. Uneven development sows the seeds of conflict between countries.
3. Marxists argue that capitalism leads to overproduction or underconsumption, giving rise to fluctuations in the business cycle and undermining social stability.

A revision of Marxist thought called 'dependency theory' has been used to explain the persisting poverty of many states. Dependency theory suggests that poor countries faced immense obstacles to development because they were vulnerable to economic exploitation from developed states (Dos Santos, 1970). The links between the rich and the poor were thought to make the poor poorer and the rich richer. Underdevelopment of some parts of the world was caused by development in other parts of the world. This school of thought informed developing countries' attempts to create a New International Economic Order (NIEO) in the 1970s (Cox, 1979). This approach was undermined in the 1980s as many developing states adopted liberal economic policies in the wake of the debt crisis.

Radical theorists have tended, for a variety of reasons, to oppose globalization. It has been argued, for example, that globalization is a myth or merely imperialism in modern clothes. According to this argument, globalization represents an ideological intervention into political economy. It ostensibly describes changes in the world but, in reality, it is a set of prescriptions in support of free markets and an instrument to increase the power of capital over labour, the West over other states and to further the interests of the leading capitalist power, the US. In this sense, globalization has to be resisted since it too maintains and increases exploitative relations. At the heart of the radical argument is the view that globalization is not distinctive: that is, discussion of globalization is merely the contemporary version of imperialism. To discuss political economy in terms of globalization may mask real power relations.

In the 1980s and 90s, Marxist IPE was reinvigorated by the work of scholars drawing inspiration from Antonio Gramsci. Writers such as Robert Cox and Timothy Sinclair (1996) and Stephen Gill (1993) focused on the role of social forces and ideology in liberalizing and globalizing economic relations. They argued that globalization based on neoclassical liberal economic principles was a political project that transformed nation-states into instruments of global liberalization and economic management. Part of this project involved convincing people that neoliberal policies were actually in their best interest. In this view, the hegemony of a particular world order requires an ideological dominance that secures the broad consent of those ruled in an unequal and unjust manner.

Conflict and cooperation

Critical writers tend to perceive international economic relations as a zero-sum game. The structure of global capitalism is fundamentally conflictual. Two forms of conflict are prevalent in the global economy. Within states, capitalists and workers have competing interests and the state is the scene of a class struggle as the workers and bourgeoisie clash. According to Marxists, this conflict is objective and arises from the law of motion of capital. In the international arena, the clash between workers and capitalists is often obscured by nationalism and the intervention of the state. Through

the mechanism of imperialism, dominant states oppress weaker ones and this sets up an international struggle between imperialists and their victims.

International conflict is inevitable because of the drive for profit. Different capitalists seek the protection of their state and this leads to war. Marxist theories of imperialism have, in different ways, accounted for the tendency of capitalist states to go to war. Lenin's theory of imperialism, the most well known of these theories, combined two different explanations of capitalist development. One part of his theory focused on underconsumption in domestic markets. Because of underconsumption, capitalists were compelled into overseas adventures since they could not maintain their rates of profit on the basis of domestic demand. Another part of his theory focused on the growth of finance capital and the merger between finance and industrial capital to form monopoly capital that sought to gain profit through overseas lending. He argued that conflict and war are a necessary end result of this competition.

At the turn of the 21st century, conflict between social forces was also seen to take place on a global scale. Elites attempting to constitutionalize neoliberal principles in institutions such as the WTO and the IMF met with opposition from social movements trying to safeguard environmental regulation, raise labour standards, improve gender equity and lobby for economic justice (O'Brien et al., 2000). Critical analysts depict a global conflict that takes place within, above and across states (Gill, 2003).

Critical theory today

Although the demise of the Soviet Union and China's conversion to capitalism challenged Marxist thought, critical perspectives continue to be important to IPE. As a form of analysis critical of capitalism's inequalities and recurring crises, Marxism continues to have adherents. Many of the problems of capitalism have not been resolved. The financial crisis of 2008 and ongoing austerity have led to renewed interest in Marxist critiques of capitalism, such as Harvey's (2011) *The Enigma of Capital*. In particular, the political power of financial capital is a subject of vigorous debate, as financial institutions have prospered in the wake of the crisis, while populations have borne the brunt of austerity. To give just one example, many Wall Street bankers continued to receive financial bonuses on top of their salary, while the wealth of the average American family declined by 40 per cent between 2007 and 2010 (Lee, 2012). As we will see in Chapter 9, the issue of inequality remains pressing in many countries.

Other schools of thought that share an interest in the power imbalances and inequality of the global economy can be included under the critical approach umbrella. Feminist analysis, which stresses the role of gender in the creation and maintenance of a global economy, highlights the influence of patriarchy in undermining the quality of life for billions of people. Environmentalists concerned about the devastating effects of economic growth and runaway consumption have engaged in extensive critiques of the harmful aspects of global capitalism. Postcolonial analysis has stressed both the ongoing dominance of the North over the South and the crucial role of race in the operation of the global economy. Each of these approaches offers an alternative vision of a world with increased equality and harmony whether it be between genders, races or with the planet itself. We will explore these approaches in more detail in the following chapters.

A visual representation of critical IPE theory is the layer cake (Figure 1.3), where groups are stacked in layers across the global political economy, with some classes (or genders, or races or species) on the top and others on the bottom.



Figure 1.3 Critical theory as a layer cake

Box
1.4**Profile: Robert Cox (1926–2018) – historical materialist**

For Canadian-born Robert Cox, academic life was a second career after spending 25 years in the International Labour Organization (ILO). At the ILO, Cox served as a staff officer to the director general, chief of the programme and planning division, and as director of the International Institute for Labour Studies. After leaving the ILO, Cox took a teaching position at Columbia University in New York before settling at Toronto's York University in 1977.

Cox describes his approach to IPE and IR as historical materialist (2002a, pp. 27–9). The historical part involves recognizing that each historical era has a particular sensibility and set of institutions and understandings. This contrasts with approaches claiming that there are universal laws of human behaviour that apply across time. The materialist part places the organization of production and the social relations around production at the centre of analysis. In other words, class and class conflict play an important part in understanding political economy. Central to Cox's work has been the idea that 'production generates the capacity to exercise power, but power determines the manner in which production takes place' (1987, p. 1). He takes a particular approach to historical materialism, which mixes theoretical insights from Marx with those of scholars such as Vico, Sorel, Weber, Gramsci and Polanyi. The result is that many liberals and economic nationalists label Cox a Marxist, while many Marxists argue that he has deviated from the Marxist path (Schechter, 2002).

As the title of a collection of Cox's essays indicates, his primary interest has been *Approaches to World Order* (1996). Cox's experience at the ILO and his study of international organizations prompted him to think about the nature of power and dominance in the global economy. Cox (1983) theorized that powerful states exercise a form of hegemony that goes far beyond military strength. Hegemonic states, such as Britain in the 19th century and the US in the 20th century, drew their power from a particular form of production and social relations. Hegemony requires dominance in the economic, political, social and ideological realms. A hegemonic power is able to convince others that their interests are the same as those of the dominant power. As a result, hegemonic states try to express their interests as universal norms and use international organizations to influence other states.

Cox (1986) also argued that it was a mistake to focus on the state and ignore the role of social forces. Social forces are groups of people who occupy a particular place in the global economy by virtue of their role in the organization of production. Some social forces, such as the people who own or work in an internationally competitive industry, advocate free trade, while other social forces will oppose free trade as a threat to their interests.

In the theoretical realm, Cox (1986) was significant for highlighting the differences between critical theory and problem-solving theory. Problem-solving theory looks at the world as it is and concentrates on how issues can be addressed in the existing system. Critical theory stands back from the existing order and asks how that order came about and under what conditions it could be changed to a different form of order. Critical theorists seek to contribute to a better social order, thus they embrace emancipatory strategies. Problem-solving theory is about managing the system and critical theory is about changing the system. Most radical analyses that call for major changes in the global political economy fit into this critical category.

Cox's most significant impact in the study of IPE has been to raise critical questions about the system of international order and to contemplate how one might achieve a more egalitarian and sustainable system. This has led him to disagree with the normative and practical implications of economic liberalism, the fatality of economic nationalism and the dogma of fundamentalist Marxism.

Contending Perspectives: A Summary

The question arises as to why there are so many theories and what the relationship is between various theories. There are several reasons for the existence of multiple theories. According to Cox (1986, p. 207): 'Theory is always *for* someone and *for* some purpose.' Each theory has a different goal in mind. For example, economic nationalist theories are concerned with the security

of the state, liberal theories with building wealth or cooperation and critical theories with pursuing economic, gender or environmental equity. While they are all trying to understand the world, they are looking at different aspects of human existence. A second and related reason is that a particular theory usually advances the causes or interests of a particular group. Richer, more satisfied people and states tend to favour liberal theories that do not threaten their interests, while those disadvantaged by the system are more likely to espouse critical theories. A third explanation is that it is impossible to prove a theory right or wrong. Evidence is often disputed and interpreted in different ways. Moreover, unlike the laws of nature, people are able to reflect on their behaviour and change their form of organization and interaction. People may act according to mercantilist theories in some eras or situations and along liberal principles in others.

Table 1.2 presents a summary of the perspectives. In the discussion so far, our intention has been to highlight the existence of various interpretations. But what is the relationship between various theories? Are they in conflict or can they be made compatible? At their core, theories about IPE are incompatible because they have different basic assumptions about the units of analysis, the nature of the system and the motivation of actors. Yet, each theory can point to some evidence to support its existence and each seems to be useful in explaining some aspect of the GPE. Some theorists (Strange, 1988) have suggested that people take an eclectic approach to theory – picking and choosing as they wish. This can have some advantages, but risks

Table 1.2 Comparing the perspectives

Aspect	Economic nationalist	Liberal	Critical
Historical origins	15th century	19th century	19th century
Major figures	Hamilton, List, Krasner, Gilpin, Strange	Smith, Ricardo, Kant, Wilson, Keynes, Hayek, Keohane, Nye	Marx, Lenin, Frank, Cox
Variants	Mercantilism, realism	Free trade, interdependence	Marxism, feminism, environmentalism
Human nature	Aggressive	Cooperative	Malleable
Units	States	Firms, states, NGOs, IGOs, individuals	Class, gender, planet, global capitalism
View of the state	Unitary actor	Pluralist state: diverse interest	Representative of class interest groups
View of TNCs	Beneficial/harmful	Beneficial	Exploitative
Behavioural dynamic	State as power seeking rational actor	Individual as rational actor but outcomes not always optimal	Dominance and exploitation within and between societies
Market relations	Potentially negative	Positive	Exploitative
System structure	Anarchy/conflictual	Cooperative/interdependence	Hierarchy/conflictual
Game metaphor	Zero sum	Positive sum	Zero sum
Hegemony	Importance of a dominant state	Post-hegemonic cooperation	Hegemony in state and society
International institutions	Not very significant	Important	Serve interests of wealthy (states, firms and classes)

incoherence as one jumps from perspective to perspective. Readers should consider some systemized form of integration, where various theories may be used under particular circumstances or in a hierarchy. For example, one could have a general power politics approach while conceding that the system is also characterized by class and gender exploitation and that there are times when cooperation can be more beneficial than conflict. Alternatively, some theories may be more applicable in selected time periods.

IPE brings together knowledge from a number of fields and disciplines to increase our understanding of the relationship between economics and politics across the national/international divide. Economic nationalism, liberalism and critical theories are three broad schools of thought in the field, which explain the behaviour of actors and offer prescriptions about what states and people should do in the global political economy. In Chapter 2, we turn our attention to the evolution of the field and methods used to study it.

Further Reading

A wide-ranging and eclectic collection of articles examining IPE theory can be found in Ronen Palan (ed.) *Global Political Economy: Contemporary Theories*, 2nd edn (2012). Susan Strange outlined her critique of runaway finance in *Mad Money: When Markets Outgrow Governments* (1998), while an overview of her work is presented in Roger Tooze and Chris May (eds) *Authority and Markets: Susan Strange's Writings on International Political Economy* (2002). Robert Keohane's groundbreaking work on regimes is found in *After Hegemony* (1984), while a collection of important essays is contained in his *International Institutions and State Power: Essays in International Relations Theory* (1989). Many of Robert Cox's most influential writings are contained in (with T. Sinclair) *Approaches to World Order* (1996). A critical feminist take on GPE is V.S. Peterson's *A Critical Rewriting of Global Political Economy: Integrating Reproductive, Productive and Virtual Economies* (2003). Two journals that publish a great deal of IPE analysis are *Review of International Political Economy* and *New Political Economy*, both available at tandfonline.com.

2

INTERNATIONAL POLITICAL ECONOMY AND ITS METHODS

This chapter takes a step back from the three usual approaches to IPE (economic nationalist, liberal, critical) to consider how IPE fits with other fields of study, what kinds of methods can be used in IPE and where the field is going in theoretical terms. We also outline the approach we have taken in writing the book.

Locating the Field

IPE emerged as a subject of study in universities in the mid-1970s. From its tentative beginnings as one course within a degree programme, IPE has developed into a distinct subfield of international relations (IR). In some universities it has outgrown political science departments to take on a larger interdisciplinary flavour (see Box 2.1). Similar to its ‘parent’ disciplines, IPE remains a field in which different theoretical traditions present the student with competing descriptions of ‘reality’ and conflicting explanatory frameworks. Over time, the focus of the field has shifted over a range of topics (Denemark and O’Brien, 1997; Cohen, 2014). Some issues, such as the impact of TNCs, international finance and international trade, have remained central to the core issues covered in IPE courses. The centrality given to issues such as ‘Third World’ development or North–South conflict has varied considerably since the 1970s. Meanwhile, issues such as East–West relations, energy and the impact of producer cartels have vanished to be replaced by a focus on environmental concerns, gender and postcolonialism. In terms of a broad overview of the international political economy, analysis has shifted from a concern with managing interdependence to a desire to shape globalization.

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Box
2.1

IPE or GPE?

The terms ‘international political economy’ and ‘global political economy’ are often used interchangeably. In this text we use them in specific ways. Since the term ‘international political economy’ is the most common way to refer to the academic field of study that examines the interaction of economic and political phenomena across state borders, we will use ‘IPE’ when discussing the field of study. We will also use ‘international political economy’ when discussing the history of economic and political activity across state borders up until the last quarter of the 20th century. When using the term ‘global political economy’ (GPE), we are referring to the environment from the last quarter of the 20th century until today. This is an era where states, corporations and citizens struggle to order their environment in a world characterized by intensified globalization.

To situate the study of IPE among other subjects, it is useful to make some preliminary comments about the organization of knowledge in the social sciences. Although Western knowledge and universities are separated into distinct subjects, fields and departments, this was not always the case. Before 1900, intellectuals often worked in a number of different fields that would not fit into today's compartments. Thus, in the late 1700s, Adam Smith, who is often seen as the founder of liberal economics, was a professor of moral philosophy rather than an economist. As knowledge has grown, so fields have become more specialized. Those interested in the culture of other societies drift into anthropology departments, those interested in the operations of society into sociology, people concerned with the study of power and politics into political science departments and those focused on the economy into economics departments. Each field has developed its own theoretical and methodological approaches to answering a particular set of questions. The same subject can be examined in different disciplines from a variety of perspectives.

The specialization of knowledge in the social sciences corresponded with the solidification of nation-states in Western Europe. Social sciences disciplines increasingly became national disciplines. People would study French society or the US economy in isolation from other societies or economies. In some respects this made sense. Nation-states were becoming more developed and their regulatory activity was having an increasingly significant impact on the people within the hardening borders. However, this methodological nationalism meant that the connections between societies and their relationship to the outside world were neglected.

IPE tries to bridge some of these historic divides. It crosses the boundaries between the study of politics and economics, as well as the national and the international. Depending on the approach, it will also draw on other fields such as geography or history. We'll briefly examine some of the neighbouring fields to develop our understanding of global political economy's place.

Economics

The word 'economics' comes from the Greek *oikonomia*, which in its original use meant the management of the household. Over the centuries, study of the economy has varied greatly. Today the discipline is dominated by a particular approach to the economy known as 'neoclassical economics'.

The central problem for neoclassical economists is how to allocate scarce resources. Human desires are seen as unlimited, while the resources to fulfil them are finite. The problem then becomes how to allocate those resources most efficiently. The solution to this problem is to be found in the efficient operation of markets. Markets are places where informed individuals can make mutually advantageous exchanges. Consumers are important in this approach. Well-informed individuals acting in their own economic self-interest will send signals about what should be produced. Left alone, the sum of these individual choices will result in the most efficient allocation of resources.

Neoclassical economists seek to fashion their subject into a science and separate it from the study of politics and philosophy. Whereas political decisions might be influenced by emotions, economic decisions are based on rationality. Politics and politicians are often seen to block the operation of the free market and prevent it from operating efficiently. In an attempt to make the discipline of economics more scientific, many modern economics departments have turned increasingly to using mathematical models to analyse the economy and advance arguments in favour of particular policy options.

Neoclassical economics tends to view governments and government intervention in the economy as inefficient. Governments are needed to provide some basic public goods, such as police forces, armies and institutions which ensure that a free market is able to function. However, they should be confined to as small a role as practically possible.

Although neoclassical economics dominates many economics departments, there are other approaches to the field (Stilwell, 2002). Keynesian economics sees government as being crucial to a well-functioning economy. Keynesians believe that government should provide a wider range of public goods (such as healthcare) and that government spending is needed to move economies out of recession or depression. Their view is that when businesses fail to invest for economic growth, governments must step in. Institutional economics is another variant; it argues that markets are not 'natural' but are the result of a series of institutions such as the legal structure, the financial system and social values. These economists argue that the discipline should focus on the real world rather than abstract models of a free market that does not actually exist. Both Keynesian and institutional economics have a much more expansive and positive view about the role of government. There are other approaches to economics such as Marxist, feminist and ecological perspectives, but these tend not to be taught in economics departments because they challenge many of the rationality assumptions of traditional economics.

While neoclassical economics purports to be based on how a free market really works, some have suggested that the study of economics actually changes how people think and behave. Neoclassical economists and their students may behave the way their models predict people should behave. One study comparing economics students with those in maths, law, science and business found that economics students trained in the use of mathematical models were far more likely to resolve a conflict between profit maximization and worker welfare in favour of profit maximization than their colleagues in other departments (Rubinstein, 2006). A series of other studies have suggested that the field's focus on self-interest prompts its students to be less charitable, have fewer concerns for fairness and be more accepting of greed than other students (Grant, 2013). The possibility that theories help shape reality rather than only explain it will be considered when we look at constructivist approaches.

The field of economics brings many useful ideas and concepts to the study of GPE. Key theories explaining macroeconomics, comparative advantage, supply and demand and the operation of markets can explain particular events and have informed the actions of decision makers. In terms of the perspectives outlined in this book, liberal theory draws heavily on the field of economics.

Political science

The use of power and politics is the subject of political science. However, there is a wide variety in what is actually studied and how it is studied in the various subfields. For example, political theory examines key political and philosophical texts about how societies should be governed. Comparative politics considers how different countries are governed and tries to learn general lessons from the varying political institutions or cultures. German, US or British politics examine the political systems of those countries. For example, US politics can examine the operation of the US Congress, the presidency, voting patterns and the influence of lobbying and pressure groups on public policy. Public administration studies the state bureaucracy and the implementation of particular policies.

Despite these varieties in the field, many political science studies share a number of common characteristics. First, they are concerned with power or the ability of one set of actors to have their preferences implemented. This is a different world from that of the economists, who see decision-making as being the result of well-informed, equal and free individuals expressing their rational preferences. In the world of politics, decision-making is influenced by argument, ideology, institutional features and the threat of violence. Second, many political studies focus on institutions, most notably the state or the machinery of government. Whereas neoclassical economists are obsessed with the operation of the market, political scientists often cannot tear their vision away from the operation of the state.

As a result of this perspective, political science brings a number of elements to the study of GPE: the focus on power, the state and the welfare of particular communities (as opposed to all communities).

Political economy

If economics has become increasingly abstract and detached from the economy as it actually operates, and political science tends to ignore the economy by focusing on political institutions, then the answer must be to integrate these two fields into the study of political economy. Unfortunately, the term 'political economy' has meant a number of different things to different people over time. Prior to the rise of neoclassical economics, political economy referred to the work of scholars such as Adam Smith, David Ricardo and Karl Marx. However, the neoclassical turn stripped the political from the economic. Some scholars who did not share this desire continued to examine how politics structured the economy and how the economy influenced politics. For this strand of thinking, politics and economics are inseparable.

However, *The Oxford Handbook of Political Economy* takes a different approach to the subject matter. Rather than view the field as the interrelationships between economics and politics, it defines the subject matter as consisting of 'the methodology of economics applied to the analysis of political behaviour and institutions' (Weingast and Wittman, 2006, p. 3). In this approach, the unit of analysis is the individual and that individual follows rational decision-making behaviour to maximize their goals. Game theory or mathematical models are used to inform the analysis, while statistical tools or experiments are used to demonstrate the validity of particular propositions.

So, within the mainstream, political economy can mean an attempt to integrate politics and economics along the line of institutional economics, or it can mean the application of neoclassical economics assumptions and methods into the study of politics. Outside these understandings, another version of political economy survived the shift to neoclassical economics. A Marxist political economy tradition flourished but was ignored by many Western academics. Indeed, the association of political economy with Marxism was one of the reasons for the continued neglect of political economy in university economics departments. Some of these Marxist studies, such as Baran and Sweezy's *Monopoly Capital* (1966), provided important insights into the dynamics of political economy.

International relations

The field of IR is often located in political science departments. Its origins as a distinct area of study date back to the aftermath of the First World War. European leaders and publics were shocked at the length and devastating loss of life of that conflict. As part of their attempts to prevent the outbreak of another disastrous war, efforts were made to increase understanding about the causes of war and the operations of the international system. The field of IR was given this task and, as a result, it has tended to focus on issues of war and peace, the foreign policy of various states and the operation of international organizations.

Whereas many of the other fields have stressed the importance of developments internal to the state, IR concentrates on interactions between states. The focus is on how the international system operates rather than the internal workings of particular states. There is some examination of the making of foreign policy, but the emphasis is on its interaction with the foreign policy of other states.

The dominant IR theoretical approach has been realism. This theory stresses the lack of any overarching power in the international system (anarchy) and the continuous competition for power between states. More liberal approaches have focused on the possibilities of states to cooperate, the role of international organizations and law to foster cooperation, and the significance of regional integration, free trade and democracy to foster peaceful relations between states.

In the 1970s, as US power seemed to be decreasing and economic issues were becoming more significant, some scholars turned their attention to international economic issues. The early 1970s witnessed a major change in the international monetary system, as fixed rates were abandoned, the price of energy rapidly escalated during the oil crisis and inflation and unemployment plagued Western countries. Efforts to include 'economic' issues alongside the traditional security concerns of IR were the beginning of the study of international political economy.

Over the past 20 years, the field of IR has moved in many different directions. IPE or GPE has carved out a place in the study of IR. While realist and liberal approaches are still important, other theoretical orientations have proliferated. Feminist approaches stressing the role of gender, Marxist approaches emphasizing class, constructivist and poststructural approaches emphasizing the role of language and culture and postcolonial approaches focusing on the legacy of imperialism have broadened the subject matter and methods of the field.

IPE studies can, and do, draw on a range of fields other than economics, political science and IR. Some authors, such as ourselves, may have a historical bent and draw on the work of historians to explain today's developments. For example, Chapter 3 draws on the work of Janet Abu-Lughod and her analysis of early world economies in the 1400s. Geography is increasingly relevant for GPE as insights from geographers about the importance of space and scale are absorbed. For example, geographic approaches can be used to explain the factors that determine the geographic location of foreign direct investment and production (Dicken, 2007) or how workers use local advantages to frustrate the ambitions of global companies (Herod, 2001). Sociological studies can assist in our understanding of particular groups in the global economy, such as studies on transnational classes or globalizing elites (Sklair, 2001) that highlight how particular groups benefit from and drive economic globalization (Box 2.2). As the GPE has become more institutionalized, legal studies are of increasing significance. Legal analysis of the WTO helps scholars understand the powers and limitations of that organization's dispute settlement mechanism (Jackson, 2006).

Box 2.2

What is globalization?

The term 'globalization' is used widely, but people often mean different things when they use the term. For example, some people use the term to imply internationalization – an increase in the volume of economic flows across borders – while others use it to indicate liberalization – the removal of restrictions to cross-border flows, such as the elimination of trade or investment barriers. Both internationalization and liberalization are often used in the context of economic activity. The term 'globalization' can also be used in the realm of knowledge or ideational dissemination. For example, some analysts focus on universalization – particular ideas or principles being accepted by all people – while others emphasize Westernization – the increasing prevalence of ideas and practices originating in Europe or the US. These terms are most often used when discussing the spread of principles, such as human rights, or culture, such as the expansion of the US film industry.

The term 'deterritorialization' highlights the changing nature of geography and the creation of new relationships between different groups of people. Following Scholte (2000a), we understand globalization to mean a process of relative deterritorialization. Territory is not disappearing, but it is becoming less important to human affairs. Deterritorialization involves the shrinking of time and space, as well as the creation of new sets of social relations and new centres of authority. We can see that time and space have become less significant obstacles to human interaction as technologies make it easier and quicker to travel across large distances or communicate with people worldwide. The lowering of time and distance barriers allows people to become involved in the lives of other people around the world much more easily. However, this compression is extremely uneven. Some areas of the globe are left behind as advanced areas exploit technology and upgrade communication and transport infrastructure. Globalization is not occurring at the same rate and same pace in all countries or regions.