The International Political Economy Since World War II

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I. Introduction

A defining characteristic of the post-World War II era has been the dramatic increase in economic integration among the liberal capitalist countries, an increasing number of developing countries, and, during the past decade, a number of former communist nations that are undertaking a transition to more open markets. This note seeks to provide an introduction to this most dynamic part of the international system, and it seeks to do so by pursuing three specific objectives. The first is to provide a descriptive overview of the key features of the global economy since World War II. To achieve this objective, the first main section of the note reviews some of the most important trading patterns, cross-border financial transactions, and foreign direct investment activities that constitute the contemporary international economy, as well as the main mechanisms and modes of political interaction between countries that structure their economic relationships. The second main objective of the note is to provide an overview of the academic field of international political economy (IPE). The IPE field, as is detailed in the second main section of the note, seeks to understand the domestic and international political and economic sources of international economic cooperation and conflict, and, as a consequence, international economic openness and closure, as well as the domestic and international consequences of cross-national economic integration. The third main objective of the note, pursued in the note's final main section, is to identify some of the key factors that may influence the future course of the world economy, factors that may serve either to enhance or to constrain international economic cooperation and integration in the future.

II. Overview of Main Characteristics of the International Economy Since World War II

1. Intensification of International Trade and Capital Flows

The remarkable increase in international economic integration since World War II can be observed with regard to trends in trade, finance, and foreign direct investment.

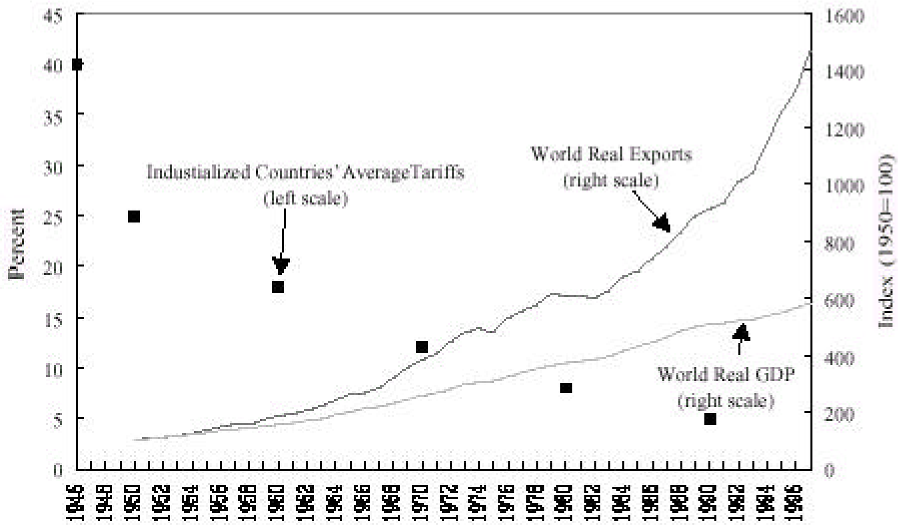
Trade

The integration of national economies through cross-border exchanges of goods and services has increased greatly since World War II. We may gain a sense of this increased integration from Exhibit 1, taken from a report by the U.S. Council on Economic Advisers, which provides indices for both total world exports and total world economic activity, as well as average tariff levels of the industrialized countries, during the period from 1950– to 1997.

As can be observed in the exhibit, the industrialized countries reduced their average tariffs after World War II from about 40% in 1946 to about 5% at the end of the 1990s. This helped to spur a boom in world exports; total real exports in 1997 were roughly 14 times that in 1950. By way of comparison, total real economic activity was only about six times greater in 1997 than in 1950.

Exhibit 1

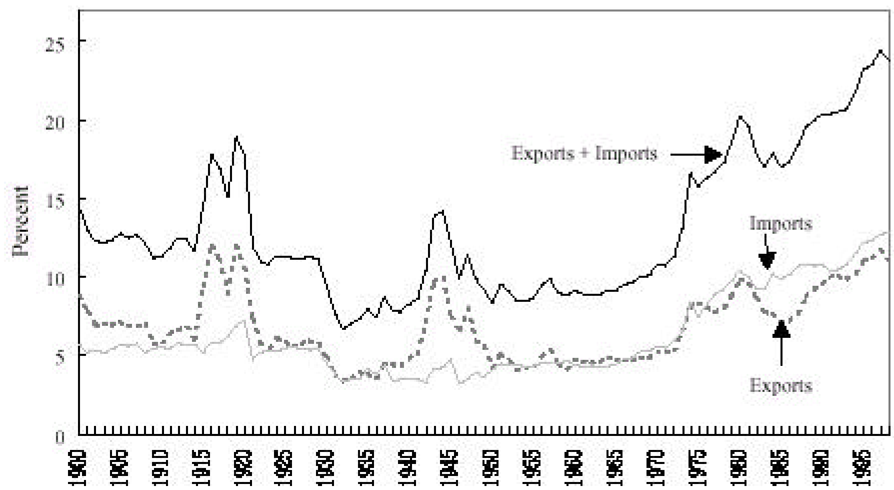
Growth in World Real Exports and World Real Gross Domestic Product
Since World War II



Source: U.S.,Council of Economic Advisors, *America's Interest in the World Trade Organization: An Economic Assessment*, (Washington: Council of Economic Advisors, Novermber 16, 1999), p. 17An important example of a country experiencing enhanced international trade integration is that of the United States. As can be observed in Exhibit 2, while U.S. exports and imports equaled less than 10% of U.S. Gross National Product (GNP) in the early 1950s, total U.S. trade equaled almost 25% of U.S. GNP at the end of the 1990s.

Exhibit 2

U.S. Trade and Gross National Product, 1900-1998

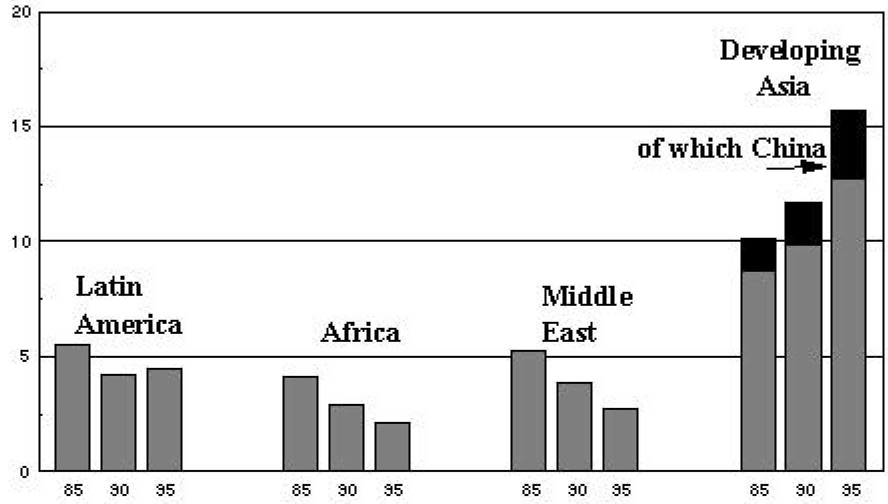


Source: U.S. Council of Economic Advisors, *America's Interest*, p. 6; at **Error! Bookmark not defined.**

Within this general framework of international trade integration since World War II, there have been three particular developments. First, there has been an increase in what economists call "intra-industry trade"; rather than the exchange of shoes for computers, for instance, we often see exchanges across borders of similar goods. Second, many developing countries, especially in East and Southeast Asia, have integrated into the world economy with great success. This success on the part of the East Asian and Southeast Asian countries can be observed in Exhibit 3, which indicates that while these countries were the source of about 10% of total world exports in 1980, they were the source of about 16% of global exports in 1995.

Exhibit 3

Shares of Developing-Country Clusters in World Merchandise Exports
1985-1995



Source: World Trade Organization, *Participation of Developing Countries in World Trade: Overview of Major Trends and Underlying Factors*, (Geneva: WTO,1996), p. 8, and available on the World Wide Web at http://www.wto.org/english/tratop_e/devel_e/w15.htm.

The third main characteristic of the contemporary trading system is the continuing and perhaps growing importance of regional trading networks. This can be observed in Exhibit 4, which reports on trade encapsulation on the part of countries in various regional arrangements – that is, the percentage of total exports from countries in a particular trading arrangement that was shipped to countries in the same arrangement. As can be observed in the exhibit, while 40% of the exports from the United States, Canada, in Mexico (which formed a regional trading area under the terms of the North American Free Trade Agreement, or NAFTA, in 1993) went to one another's markets in 1990, about 52% of exports went to regional partners in 1998. An even more pronounced regionalization of trade occurred between Argentina, Brazil, Uruguay, and Paraguay, which in 1991 formed the Common Market of the South, whose Spanish acronym is Mercosur. While about 9% of exports from these countries were shipped to regional partners in 1990, this increased to 25% by 1998. Only the countries that form the European Union (EU) appear to have experienced a decrease in regional concentration of trade during the 1990s (although in 1998 the figure still exceeded 50%), although this may have been due to the expansion in the membership of the EU during the period.

Exhibit 4

Regional Trade Encapsulation, 1970-1998

% of total exports	1970	1980	1985	1990	1995	1996	1997	1998
High-income and low- and middle-income economies								
APEC	57.9	57.9	67.7	68.5	72.0	72.1	71.8	69.7
European Union	59.5	60.8	59.2	65.9	62.4	61.4	53.8	55.2
NAFTA	36.0	33.6	43.9	41.4	46.2	47.6	49.1	51.7
Latin America and the Caribbean								
Andean Group	1.8	3.8	3.2	4.1	12.1	10.7	10.3	11.9
CACM	26.0	24.4	14.4	15.4	17.0	18.9	15.5	14.5
CARICOM	4.2	5.3	6.4	8.1	4.7	13.3	13.5	17.1
LAIA	9.9	13.7	8.3	10.9	16.8	16.6	17.2	16.7
MERCOSUR	9.4	11.6	5.5	8.9	20.3	22.7	24.8	25.1
OECS	..	9.2	6.5	8.2	11.7	9.1	9.7	10.6
Africa								
CEMAC	4.8	1.6	1.9	2.3	2.2	2.3	2.1	2.6
CEPGL	0.4	0.1	0.8	0.5	0.5	0.5	0.4	0.6
COMESA	9.1	6.1	4.7	6.6	6.6	7.9	7.6	7.7
ECCAS	2.2	1.4	1.7	1.4	1.5	1.6	1.6	2.0
ECOWAS	2.9	10.1	5.2	7.8	9.3	8.8	9.0	10.8
MRU	0.2	0.8	0.4	0.0	0.1	0.2	0.4	0.4
SADC	1.4	0.3	1.4	2.8	10.1	10.3	10.0	10.2
UEMOA	6.5	9.6	8.7	12.9	9.8	9.6	11.5	11.1
Middle East and Asia								
ASEAN	22.3	17.2	18.6	18.9	24.3	24.2	23.7	20.4
Bangkok Agreement	2.7	3.7	3.7	3.8	5.1	5.3	5.2	5.1
ECO	2.2	6.3	9.9	3.2	8.0	7.1	7.6	8.3
GCC	4.6	3.0	4.9	8.0	6.6	5.6	4.6	4.5
SAARC	3.2	5.2	4.8	3.2	4.4	4.3	4.0	5.3
UMA	1.4	0.3	1.0	2.9	3.7	3.4	2.6	2.6

Source: World Bank, *World Development Indicators 2000*, available on the World Wide Web at http://www.worldbank.org/data/wdi2000/pdfs/tab6_5.pdf

Finance: Portfolio and Foreign Direct Investment

The second area of recent intensified international economic integration concerns cross-border flows of capital.[1] There are three main categories of such international capital movements:

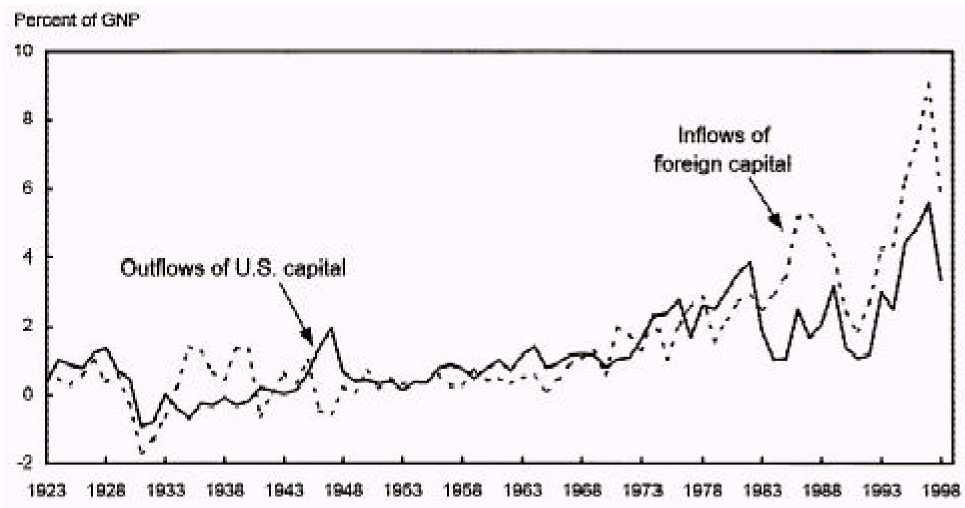
- Portfolio investments: These consist of cross-border purchases and sales of bonds; the establishment of money market accounts; the purchase of foreign equity securities whose ownership levels do not imply a capacity of the buyer to influence the management of the firm issuing the equities; and financial derivatives such as future contracts and options.
- Foreign direct investments (FDI): These consist of the purchase by residents of one country of a sufficient level (ten percent or more) of the publicly-traded shares or their equivalent of an enterprise in another country, or the establishment by a firm of a new enterprise in a foreign country, with the purpose of having a lasting interest in and influence on that enterprise.
- Other foreign investments: These include trade credits, bank deposits, and bank loans. They are often very short-term in maturity.

International cross-border flows have increased greatly during the post-World War II era, and especially in recent years. One estimate is that total capital flows averaged about $384 billion between 1980 and 1994; these more than doubled by the 1990-94 period, during which they totaled an average of about $867 billion per year. The process of global financial integration intensified during the 1990s; including data from Taiwan, total capital flows jumped from an average of about $896 billion per year during 1990-94 to about $1.7 trillion in 1996.[2]

We can appreciate the growing relative importance of international flows of capital by reference to Exhibit 5, which presents data on U.S. inflows and outflows of capital relative to U.S. GNP during the period from 1923 through 1998. The exhibit indicates that while the sum of flows of capital into and out of United States equaled about 4 to 6 percent of U.S. GNP during the 1970s, such flows equaled 8 to 10 percent of U.S. GNP by the end of the 1990s.

Exhibit 5

U.S. Capital Flows Relative to Gross National Product, 1923-1998

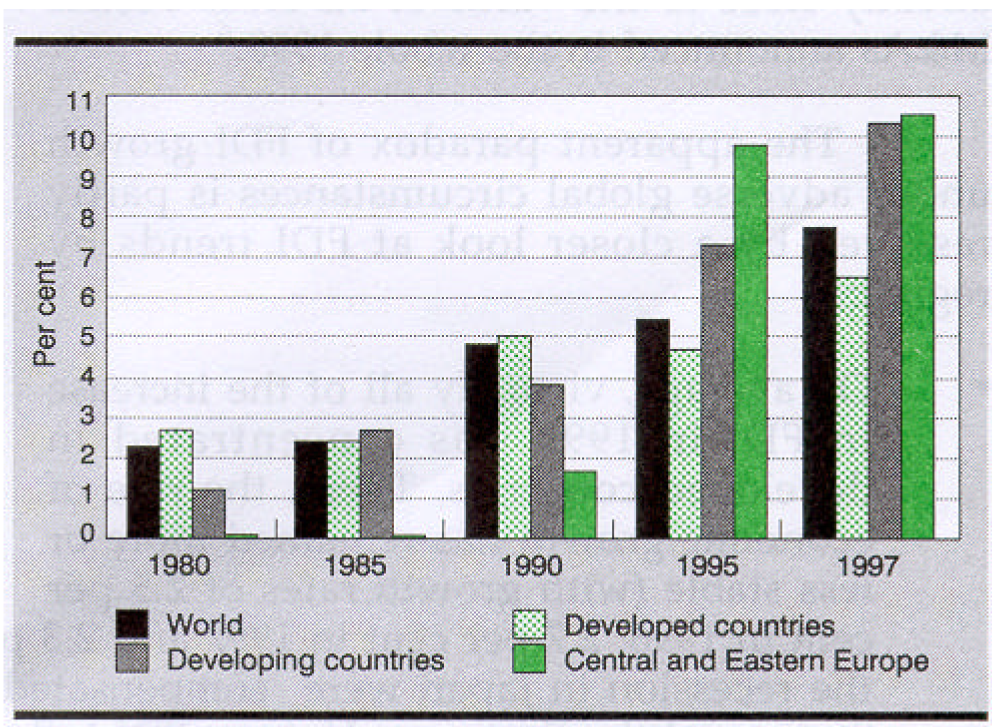


Source: U.S. Council of Economic Advisors, *2000 Economic Report of the President* (Washington, DC, 2000), p. 206; see http://w3.access.gpo.gov/usbudget/fy2001/pdf/2000_erp.pdf.

A great deal of media attention is devoted to portfolio investments, and especially short-term capital flows, and the role these have played in international financial crises such as those that occurred in the 1990s in Mexico, Korea, Thailand, Indonesia, and Russia. However, foreign direct investments, particularly those by multinational enterprises, may be playing an even more important long-term role in forging a truly global world economy. Foreign direct investments, recent analyses suggest, have come to constitute a larger and larger share of total global capital flows, from about 12% of such flows in the early 1980s to about 25% in the early to mid-1990s.[3] Moreover, FDI is coming to play an increasingly important role in the process of capital formation in many groups of countries. This growing importance of FDI in capital formation can be observed in Exhibit 6. It indicates that FDI inflows constituted about 8% of world gross-fixed capital formation in 1997, up from 5% in 1990 and about 2% in 1980. For developing countries, the role of FDI in capital formation has increased at an even more dramatic rate: while FDI made up about 1% of gross capital formation in those countries in 1980, this increased to 4% in 1990 and to over 10% in 1997.

Exhibit 6

Foreign Direct Investment as Percentage of Gross Fixed Capital Formation
1980-1997



Source: United Nations Conference on Trade and Development (UNCTAD), *World Investment Report: 1999* (Geneva, 1999), p. 12.

2. The Main Actors in the International Political Economy

We can identify at least three main categories of political actors in the contemporary international political economy: multinational enterprises, global institutions, and regional arrangements.

Multinational Enterprises (MNEs)

As a recent UN report indicates, about 60,000 parent firms direct the operations of over 500,000 affiliates around the world. Most important among these parents are the top 100 non-financial MNEs, almost all of which come from Europe, Japan and the United State. These 100 largest non-financial MNEs—companies such as General Electric, Ford Motor Company, Royal Dutch Shell, IBM, and Nestlé—had foreign sales in the range of $2.1 trillion in 1997, or about 22% of the sales of all MNEs. International banks, such as Citigroup of the United States, are another major category of private actors in the world economy.[4]

Global Institutions

At least three global institutions serve as important frameworks within which national governments, and, increasingly, private firms and non-governmental actors, seek to influence the operations of the international economy.

- International Monetary Fund (IMF): The IMF came into existence in December 1945 as a result of negotiations that were concluded in Bretton Woods, New Hampshire, in the summer 1944. It began with 29 member-states; as of late 2000 it was composed of 182 members, and is headquartered in Washington, D.C., with 2700 staff members. The IMF member states make their key decisions on the basis of votes weighted by the members' financial contribution to the Fund. The IMF serves as the main institutional mechanism through which member states assure one another that they are not seeking to manipulate exchange rates in an effort to attain an international competitive advantage. This mutual surveillance/assurance function is carried out in the context of annual visits by IMF staff to member countries to review each member's international economic policies (termed "Article IV consultations," from the portion of the IMF Articles of Agreement that serve as the basis for such consultations), and through biannual reviews of national economic circumstances and policies undertaken in the context of the preparation by the IMF staff of its *World Economic Outlook* report. In addition, the IMF provides short-term financing to countries facing balance-of-payments difficulties on the condition that a country that is experiencing a balance-of-payments short-fall undertakes specific measures to re-establish a sustainable balance-of-payments position; as of April 2000, 92 member states were the recipients of about $66 billion in IMF credits for the purpose of balance-of-payments support.[5]

- The World Bank: The World Bank was also founded as a result of the Bretton Woods Conference. Like the IMF, the World Bank today has 182 member-states; it too is headquartered in Washington and has 10,000 professional staff. The World Bank makes loans to developing countries for longer-term developmental projects. It had outstanding loans to approximately 100 countries in 1999, and disbursed approximately $15.3 billion in new loans that year. Its main decisions are taken, as is the case with the IMF, on the basis of weighted voting.[6]

- The World Trade Organization (WTO): The WTO was established in 1995 as the more formal, institutionalized successor to the General Agreement on Tariffs and Trade (GATT). The GATT had been the main international forum for international trade diplomacy since its establishment as an interim agreement in 1947 between 23 countries and in the wake of the failure of the main trading countries to bring to fruition a more comprehensive International Trade Organization (ITO). As of the autumn of 2000, the WTO had 139 member-states, with 28 more states seeking membership; it has a secretariat with 500 staff members. Before 1995, the GATT carried out two main functions. First, it served as the framework within which member states conducted periodic "rounds" of multilateral trade negotiations aimed at agreements that reduced tariffs and, later, established greater international discipline over the use by members of non-tariff barriers. There were eight such rounds between 1947 and 1994; the last of these produced the agreement to make the GATT a more formalized international legal entity, the WTO. At present, the WTO members are negotiating the terms for the launching of a new "Millennium Round" of trade talks. Second, the GATT in the past, and the WTO to an even greater extent today, was/is responsible for the development and implementation of rules and procedures whereby member states can resolve disputes regarding their rights and duties under the terms of the GATT/WTO agreements.[7] The GATT multilateral rounds officially relied upon decision-making by consensus, but in practice has employed a "major interests" or "principal supplier" rule; that is, the countries with a predominant interest in a trading sector (typically the industrial countries) would reach accords on the specific issues surrounding that sector and invite secondary states.[8] Dispute settlement procedures operated in the GATT on the basis of unanimous acceptance of dispute settlement rulings by panels of experts, but because the country against which a panel might find could thereby block the report's findings and remedies, the WTO agreement on the settlement of disputes prevents such blockage by the country whose trade practices are being challenged by another member.[9]

Regional Arrangements

According to the WTO, at present there are approximately 134 regional trading arrangements in force.[10] Among the most important are the European Union (EU) and the North American Free Trade Agreement (NAFTA).

- European Union (EU): This is the main regional economic arrangement in the contemporary global economy. At present it consists of fifteen European member states, with as many as thirteen countries seeking membership as of the end of 2000.[11] The European Union, which is the successor body to the European Coal and Steel Community (ECSC, founded in 1951) and the European Economic Community (founded in 1957), has sought to reduce barriers to all forms of economic interchange among the member states, and thereby to promote greater overall cooperation among the members. In more recent years it has developed a common currency and central banking system (the euro and the European Central Bank, or ECB), and it has taken some first steps toward the formation of a common foreign and security policy. The EU's main institutions are the European Council, though which the governments of the member states give overall guidance to the work of the Community; the Commission, the administrative body that may initiate proposals for Community policy and is responsible for the implementation of most of the policies of the Community (a big exception is monetary policy, which is the responsibility of the new European Central Bank), and which consists of a President, a number of Commissioners appointed by the president to oversee particular functions of work by the Commission, and a professional staff of about 15,000 persons; the European Parliament, which has limited but growing oversight functions in the Union; the European Court of Justice (ECJ), which adjudicates cross-border disputes regarding European Community law; and the European Central Bank (ECB), which is an independent entity charged with establishing a common, single monetary policy for the twelve EU members that have adhered to the single currency.[12]

- North American Free Trade Agreement (NAFTA): This is a regional trade arrangement that came into effect in January 1994, and includes the United States, Mexico, and Canada. Its main institutional form is the Free Trade Commission, constituted by the trade ministers of the three countries; there are also a number of working groups formed by specialized governmental representatives.[13]

III. Areas of Research and Controversy in the Field of IPE

1. How new is the new world economy?

One key question regarding the contemporary international economy is whether the intensity of trans-border economic integration that we observe today marks a qualitatively new stage in the evolution of the world economy, or whether comparable levels of integration can be observed in earlier periods.[14]

One argument emphasizes that contemporary economic integration is not unique from an historical perspective, and that international economic integration may well have been as high, or even higher, in the years just before the outbreak of World War I in 1914.[15]

An alternative view acknowledges that, on basis of several aggregate measures such as trade as a percentage of Gross Domestic Product (GDP), today's level of international economic integration by many industrial countries is just now reaching that attained by the main trading countries in the years leading up to 1914. However, proponents of this perspective suggest that there are some elements of today's integration that point to a higher intensity of integration at present compared to that during the first "golden age" of interdependence prior to 1914. These elements include the newly important participation in the world economy of a range of developing countries; the much higher level of participation by the United States in the world economy (see Exhibit 2); and the new roleplayed by multinational enterprises in forging, perhaps for the first time, truly global industries.

2. What are the main sources of contemporary world economic integration?

A second area of research and controversy among students of IPE centers on efforts to locate the mainsprings of world economic integration.[16] The key points of argument on this question include:

- Technology. Some authors emphasize that international economic integration since World War II reflects important technological changes in computers, telecommunications, and transportation (the jet aircraft and extremely large cargo ships). From this perspective, technological developments, together with increases in knowledge on the part of managers to coordinate the far-flung activities of corporate affiliates around the globe, have permitted the intensification of cross-border linkages forged by multinational enterprises to a degree that was infeasible in earlier periods.[17]
- International political conditions: hegemonic leadership. A number of scholars have emphasized that international economic openness requires a hegemonic leader that will have both the interest and the capacity to bring about and to maintain the political, institutional, and military conditions that are associated with an expanding world economy.[18] This role of hegemonic leader was occupied and played by Britain during the bulk of the 19th century, according to these scholars, and Britain's incapacity to perform the tasks of the hegemon after World War I, and America's unwillingness to accept the role, contributed to the decline and ultimate collapse of the world economy in the wake of the Great Depression of 1929-1939. After World War II, this perspective emphasizes, the United States

did provide military security to Japan and the Western European countries so that they would be willing to open their markets to one another; it did take the lead role in the establishment and work of the key international economic institutions, and in particular the GATT and the IMF; it decisively promoted European integration through the institutions cited above; and it permitted its Western European and Japanese allies to be selectively protectionist against U.S. goods and firms in the interest of conducting the Cold War against the Soviet Union while at the same time making steady progress toward the overall opening of the world economy.

- <u>"Embedded liberalism" in the industrialized democracies</u>. A third argument regarding the development <u>and maintenance</u> of an open and growing world economy focuses on the consensus that existed within and across the main trading countries on economic matters after World War II and, indeed, into the present.[19] This argument emphasizes that, in the wake of the collapse of the world economy during the 1930s, the rise of economic nationalism and, ultimately, the movement to world war, political elites in such countries as the United States and Great Britain converged on, and since then have continued to share, the belief that the world economy should be open, that it should operate largely on the basis of market principles, but that governments individually and collectively may intervene to limit some of the instabilities and inequalities that were associated with the more free-wheeling international economy of the late 19th century. This perspective suggests that the reason why the international economy did not collapse during the 1970s and 1980s in the wake of the apparent decline in

American economic hegemony is that the main countries in the world economy continued to share the view that the world economy should be open, with limited, constrained state interventionism to alleviate temporary strains and instabilities. So long as the domestic politics and value-structures of the main trading countries remain oriented in this manner, this perspective suggests, the world economy is likely to remain basically on track toward greater openness, albeit with pockets of protectionism.

· International regimes. A fourth argument about the sources of international economic openness emphasizes the roles played by the GATT/WTO, the IMF, and other international institutions.[20] From this perspective, after U.S. hegemony declined, international institutions created a favorable context in which the United States and its partners could maintain and extend international openness. Such institutions, from this perspective, have fostered both greater transparency in the behavior of partners and the creation of a framework in which partners have an interest in developing reputations for faithful adherence to their international commitments. The effect is to reduce the attractiveness of cheating to the partners, as well as to diminish of the costs of reaching agreements, thus promoting economic cooperation.

3. What are the effects of contemporary international economic integration?

A number of bodies of research have sought to understand the effects of international economic integration on political-economic relations within and across countries. Three of the key areas of research include:

- International economic integration and state autonomy. One argument holds that, compared to what may have been true in the 1950s and perhaps the 1960s, when the major industrial countries and most of the developing nations had numerous controls on trade and especially on financial flows, international economic integration during the past thirty years has sharply reduced the economic policy autonomy of all countries linked to the world economy. According to this perspective, a nation that is facing unemployment, which in the past might have sought to increase economic demand and employment by incurring large national budgetary deficits or expanding its monetary supply, must now be worried that doing so might instigate a flight of capital and an overly large decline in the international value of its currency. In the same vein, the concern is sometimes expressed that national governments are being forced by contemporary increases in international economic integration to engage in a "race to the bottom" with respect to national welfare and safety and environmental policies; that is, in seeking to attract and maintain the presence of multinational enterprises within their borders, countries may be finding themselves compelled to reduce government welfare expenditures and to revert to lower policy standards when these affect the costs of business.[21]
- International economic integration and world peace. Pursing arguments put forward by such classical writers and Adam Smith and Immanuel Kant and, in

more recent times, Norman Angell, it has been suggested that increases in the level of international economic interdependence between countries (measured, for example, by the amount of each country's exports to a partner nation relative to GDP) reduces the likelihood of military conflict between those two nations.[22] A very different perspective suggests that increases in international economic interdependence, by increasing the points of contact between countries and therefore the risk of potential disagreements between nations, may increase the risk that conflicts might develop between countries.[23] A third argument is that the effects of economic interdependence are contingent on the presence or absence of other conditions. For example, economic interdependence may mitigate conflict between a pair of countries if each believes that its partner will retain economic openness in the future rather than close off its economy, and it is likely to have a depressive effect on conflict if both countries have democratic political systems rather than if both have authoritarian regimes or if one has a democratic and the other has an authoritarian regime.[24]

- International economic integration and developing countries. A third area of continuing research concerns developing countries and whether participation by them in the world economy helps or hurts their prospects for sustained national economic growth. In contrast to the 1970s and the early 1980s, during which period there were ongoing academic and policy debates that cast the question in terms of whether developing countries would be wise to de-link from the world economy, very few scholars argue today that such de-linkage is desirable or even realistic.[25] Still, as the scholarship on multinational enterprises and developing countries highlights, there remain significant questions about the relationship between international integration and the long-run growth prospects of developing nations. One contemporary perspective on this subject suggests that developing countries can use linkages with such key international economic actors as multinational enterprises to enhance national economic growth and to upgrade the country's overall skills and capacity to interact successfully with the world economy.[26] An alternative, less optimistic view is that multinational firms will not make the kinds of large investments that most developing countries need in order to enjoy a substantial improvement in their relative status in the world economy, and, from this viewpoint, the economies of developing countries may grow as a result of international integration, but they are likely to remain relegated to the less-advanced segments of the world economic system.[27] Finally, a third perspective suggests that whether the impact of multinationals on developing countries is positive or negative, as with other linkages between the international economy and these countries, depends upon their social, political, and even cultural characteristics.[28]

IV. Sustainability of International Economic Integration

There may be strong grounds to believe that international economic integration will continue to intensify in the years ahead. However, it is also possible to identify circumstances in which the rate of integration might be slowed or even reversed.

1. The issue of system instability

During the 1990s, a number of countries, and indeed the entire international financial system, witnessed a number of crises in Latin America, East and Southeast Asia, and Russia. Often a financial crisis in one country would spread to others as a result of cross-national capital flows and the tendency of investors to view emerging-market developing countries or transitional economies as having similar risk profiles.[29] Although to date these crises have been contained and managed as a result of U.S. leadership within the IMF, it is possible that at some point a financial crisis might bring about sufficient domestic political and social turmoil in a developing country that it could experience political collapse and the rise of a government hostile to international economic integration.[30] Less dramatic, but still worrisome, was the case of Long Term Capital Management (LTCM) in the summer of 1998, in which foreign financial losses by a U.S. investment firm led to a severe sell-off in U.S. equity markets and threatened the stability of a number of major U.S. financial enterprises (and which ultimately required the intervention of the U.S. Federal Reserve to help arrange a bail-out of LTCM). This case provides evidence that even the United States is not immune to externally induced financial shocks of a serious magnitude.

2. The issue of system legitimacy.

In recent years, there has developed in the advanced industrial countries a modest backlash against international economic integration. This backlash can be observed in the street demonstrations that took place as a backdrop to the Seattle WTO Ministerial meetings in 1999. Such "globalization fatigue" may be observed as well in the reluctance of the European Union countries (prompted most strongly by France) to agree to trade liberalization in the audio-visual field as a result, at least in part, of a concern that such liberalization would lead to greater American cultural domination of Europe and indeed the world.[31] It may also be seen in the EU expressions of concern that further liberalization of trade in agricultural products would expose Europeans to unsafe American genetically-modified food products. Again, these popular and governmental concerns in the advanced democracies about globalization have to date touched only on the margins of the international economy, and it is unlikely that they presage some larger alienation from the long-term process of world economic integration. However, if a significant number of citizens in an advanced industrialized democracy were to become convinced that world economic integration meant a diminution of the capacity of their government to maintain the social-welfare side of the embedded liberalism compromise, including strong national regimes to protect worker rights or the natural environment, and that such integration threatened their national culture, then it is possible that they would press their government at least to delay further integration of their country with the world economy. By consequence, economic integration in the future will depend on the capacity of governments to work individually and collectively to manage the risks and instabilities associated with that integration.

Bibliographic Note: Studying IPE through the Internet

Students have a wide range of Internet-based sources available to them to learn about developments in the world economy.

Current News and Analysis

The Financial Times (www.ft.com) may be the best source for international economic news on a daily basis, while the *Economist* (www.economist.com) provides superb in-depth reporting, analysis, and educational supplements on international economic policy matters. *The New York Times* (www.nytimes.com) is also a useful source, as is Bloomberg.com (http://www.bloomberg.com/welcome.html).

Quarterly Journals

There are several excellent academic and policy-oriented journals that emphasize or include essays on the international political economy; most colleges and universities now subscribe to services that provide internet-based access to them, and several are available through CIAO. Three very good policy-oriented journals are *Foreign Affairs*, *Foreign Policy*, and the *National Interest*. *International Organization* and *World Politics* often have leading essays in IPE, and while *International Security* is mainly oriented toward security studies, it nevertheless has published in recent years some of the most interesting and important essays in IPE. Although their mandate goes well beyond IPE, the *American Political Science Review* and *International Studies Quarterly* also have interesting IPE essays quite frequently, as do *International Affairs*, the *Review of International Studies*, the *European Journal of International Relations*, the *Journal of Peace Research*, and the *Journal of Conflict Resolution*. The *Journal of Economic Issues* is a particularly helpful source of essays on international economic matters that are written by top-quality technical economists but are intended for a wider audience.

International Institutions

All of the major international economic institutions provide useful and important materials on world economic matters. For example, the IMF (www.imf.org) provides free access to its biannual *World Economic Outlook* report, which has very good quantitative material on world economic developments as well as interesting and useful analyses. The World Bank website (www.worldbank.org) and the World Trade Organization (www.wto.org) also have good inventories of statistical information and analytical studies. The Organization for Economic Cooperation and Development, an association of twenty-nine market-oriented developed countries, has a good collection of materials available at its website (www.oecd.org), as do the European Union (http://europa.eu.int) and the Bank for International Settlements (www.bis.org).

U.S. Government Agencies

The United States government publishes a vast amount of web-based material relating to the international economy. A helpful entry-point to these materials is a web-portal maintained by the Louisiana State University at http://www.lib.lsu.edu/gov/exec.html. Particularly helpful materials, including the annual *Economic Report of the President*, are provided on-line by the U.S. Council of Economic Advisors; these materials may be found at http://www.whitehouse.gov/WH/EOP/CEA/html/publications.html. The U.S. Department of State (www.state.gov) is also a helpful source of information on American foreign economic policy and international economic developments.

Other Sources

As noted in the text, Professor Rouriel Roubini maintains a remarkable website (at (http://ww.stern.nyu.edu/globalmacro) on international financial and macroeconomic policy matters. The National Bureau of Economic Research, a private, non-profit research association, maintains a website (www.nber.org) that provides access to a wealth of working papers by economists on a wide range of issues relating to the international economy. In addition, a prominent policy research institute in Washington, the Institute of International Economics, provides a great number of its useful, interesting, and accessible analyses of international economic policy issues (including those with a focus on U.S. foreign economic policy) at no charge through its website (www.iie.com). Finally, the University of Michigan library maintains a superb inventory of web-based statistical data sets on international economic matters at http://www.lib.umich.edu/libhome/Documents.center/stecfor.html

ENDNOTES

[1]An excellent overview of the types of foreign capital flows, and definitions of foreign direct investment in particular, is provided by Robert E. Lipsey, "The Role of Foreign Direct Investment in International Capital Flows," NBER Working Paper Series, Working Paper 7094, April 1999, pp. 6-13, and available on the World Wide Web at www.nber.org/papers/w7094.

[2]See Lipsey, "Role of Foreign Direct Investment," Appendix, Table 1.

[3]See Lipsey, "Role of Foreign Direct Investment," Table 2.

[4] United Nations Conference on Trade and Development, *World Investment Report: 1999*, Geneva: UNCTAD, 1999, pp. 4, 81, 84.

[5]The Fund provides a helpful overview of its main objectives at http://www.imf.org/external/np/exr/facts/glance.htm; also see the very helpful detailed discussion of the structures and operations of the Fund by David Driscoll, "What is the International Monetary Fund," at http://www.imf.org/external/ pubs/ft/exrp/what.htm.

[6]An overview of the World Bank and its affiliates can be obtained at http://www.worldbank.org/html/extdr/about/index.htm.

[7]For an introduction to the main functions and structures of the WTO, see the material provided at http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr02_e.htm.

[8]A helpful overview of the actual bargaining dynamics that characterized the GATT is provided by Jock A. Finlayson and Mark W. Zacher, "The GATT and the Regulation of Trade Barriers: Regime Dynamics and Functions," in Stephen D. Krasner, ed., *International Regimes*, Ithaca: Cornell University Press, 1983, pp. 195-232. In regard to a particular multilateral negotiating round, see Gilbert R. Winham, *International Trade and the Tokyo Round Negotiation*, Princeton: Princeton University Press 1986. For an introduction to the current WTO agenda, see Jeffrey Schott, "Toward WTO 2000: A Seattle Odyssey," *Federal Reserve Bank of Saint Louise Review* 82 (July/August 2000), and available through EBSCOhost.

[9]On the WTO's new dispute settlement procedures, see http://www.wto.org/english/thewto_e/whatis_e/tif_e/disp0_e.htm.

[10]For a report by the WTO on regional arrangements that, on the basis of member country obligations, have been notified to the WTO secretariat, see WTO, "Regionalism in the WTO," at http://www.wto.org/english/tratop_e/region_e/region_e.htm. A helpful introduction to the policy issues raised by regional arrangements is provided by Arvind Panagaraiya, "The Regionalism Debate: An Overview," *The World Economy* 22 (June 1999): 455-476, and available on the World Wide Web through ingentaJournals.

[11]On the current negotiations to enlarge the membership of the EU, see http://europa.eu.int/scadplus/leg/en/lvb/e40001.htm

[12]The EU provides an overview of its main institutions at http://europa.eu.int/inst-en.htm.

[13]The U.S. Trade Representative provides a helpful web page for NAFTA at http://www.ustr.gov/regions/whemisphere/nafta.shtml.

[14]For differing perspectives on this question, see Paul Krugman, "Growing World Trade: Causes And Consequences," *Brookings Papers On Economic Activity*, Issue 1 (1995): 3, available through the World Wide Web at ESBSCOhost; Douglas A. Irwin, "the United States in a New Global Economy? A Century's Perspective," *American Economic Review Papers and Proceedings* (May 1996): 41-46; Dani Rodrik, *Has*

Globalization Gone Too Far? Washington: Institute for International Economics, 1997, pp. 7-9; Richard E. Baldwin and Philippe Martin, "Two Waves of Globalization: Superficial Similarities, Fundamental Differences," NBER Working Papers Series, Working Paper 6904, (January 1999), available on the World Wide Web at www.nber.org/papers/w6904; and Michael D. Bordo, Barry Eichengreen, and Douglas A. Irwin, "Is Globalization Today Really Different Than Globalization a Hundred Years Ago?," NBER Working Papers Series, Working Paper 7195, (June 1999): 6, available on the World Wide Web at http://www.nber.org/papers/w7195.

[15]See Kenneth N. Waltz, "Globalization and American Power," *National Interest* (Spring 2000), and available on the World Wide Web through Proquest.

[16] For a useful recent overview of the literature on this subject, see Geoffrey Garrett, "The Sources of Globalization," *Comparative Political Studies* 33 (August/September 2000), and available on the World Wide Web through EBSCOhost.

[17]For a recent helpful introduction to these arguments, see Paul N. Doremus, William W. Keller, Louis W. Pauley, and Simon Reich, *The Myth of the Global Corporation,* Princeton: Princeton University Press, 1998. A very important discussion of the national and international operations of global enterprises is put forward by Michael Porter in *The Competitive Advantage of Nations* (with a new Introduction), New York: Free Press, 1999.

[18] On this topic see Charles P. Kindleberger, *The World in Depression, 1929-1939,* revised and expanded edition, Berkeley: University of California Press, 1986; Robert Gilpin, *U.S. Power and the Multinational Corporation: the Political Economy of Foreign Direct Investment*, New York: Basic Books, 1975; and Stephen D. Krasner, "State Power and the Structure of International Trade," *World Politics* 28 (April 1976): 317-348. For a fuller treatment of the hegemonic leadership literature, and a number of important of works constituting that literature, see Joseph M. Grieco, ed., *The International System and the International Political Economy*, Volume 1, *Hegemony and Cooperation in the International Political Economy*, a volume in the Elgar Library of Political Economy, Aldershot: Edward Elgar Publishing, 1993. An exhaustive statistical investigation of the hegemonic leadership thesis is presented by Edward D. Mansfield, *Power, Trade, and War*, Princeton: Princeton University Press, 1994.

[19]The key reading is John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," in Stephen Krasner, ed., *International Regimes*, Ithaca: Cornell University Press, 1983, pp. 195-231. For interesting discussions on the degree to which policy officials in the post-World War II did or did not converge in their views about the proper fashioning of the world economy, see G. John Ikenberry, *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order after Major Wars*, Princeton: Princeton University Press, 2000. On whether it is U.S. power or a transnational consensus has been operating in more recent years as the industrialized democracies manage the world economy, see Ethan Barnaby Kapstein, "Between Power and Convergence: Central Bankers and Politics of Regulatory Convergence," in Peter M. Haas, ed., *Knowledge, Power, and International Policy Coordination*, special issue of *International Organization* 46 (Winter 1992): 265-287. On the more general importance of domestic politics in the advanced industrialized democracies as the basis for contemporary global integration, see Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe*, Ithaca: Cornell University Press, 1985. Helen Milner emphasizes the special role of multinational enterprises in urging advanced-country home governments not to turn to protectionism as a way of coping with domestic economic difficulties: see Milner, *Resisting Protectionism: Global Industries and the Politics of International Trade*, Princeton: Princeton University Press, 1988.

[20]For examples of this perspective, and debates surrounding it, see David Baldwin, ed., *Neorealism and Neoliberalism: the Contemporary Debate*, New York: Columbia University Press, 1993; Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy,* Princeton: Princeton University Press, 1984; Joseph M. Grieco, *Cooperation Among Nations: Europe, America, and Non-Tariff Barriers to Trade*, Ithaca: Cornell University Press, 1990; John J. Mearsheimer, "The False Promise of International Institutions," *International Security* 19 (Winter 1994/95), as well as a number of

responses to Mearsheimer by John Ruggie, Robert Keohane and Lisa Martin, Alexander Wendt, and Charles Kupchan and Clifford Kupchan, and Mearsheimer's rejoinder in *International Security* 20 (Summer 1995), all of which are available on the World Wide Web through EBSCOhost.

[21] For helpful discussions of these matters, see Dani Rodrik, *Has Globalization Gone Too Far*? Washington: Institute for International Economics, 1997; Geoffrey Garrett, "Global markets and national politics: Collision course or virtuous circle?," *International Organization* 52 (Autumn 1998): 787-824, and available on the World Wide Web through EBSCOhost; and Robert O. Keohane and Helen V. Milner, eds., *Internationalization and Domestic Politics*, Cambridge: Cambridge University Press, 1996.

[22] *New York Times* international reporter and foreign affairs columnist Thomas Friedman refers to this as the "golden arches theory of conflict prevention," based on his observation that, as of the late-1990s, no two countries had fought each other after they had each had McDonald's restaurants established in their respective territories; see Friedman, *The Lexus and the Olive Tree*, New York : Farrar, Straus, Giroux, 1999. For important political science scholarship suggesting that economic interdependence reduces the likelihood of military conflicts, see John Oneal and Bruce Russett, "The Classical Liberals Were Right: Democracy, Interdependence, and Conflict, 1950-1985," *International Studies Quarterly* 41 (June 1997): 267-94; Oneal and Russett, "Assessing the Liberal Peace with Alternative Specifications: Trade Still Reduces Conflict," *Journal of Peace Research* 36 (July 1999): 423-442; Oneal and Russett, "The Kantian Peace: The Pacific Benefits of Democracy, Interdependence, and International Organizations, 1885-1992," *World Politics* 52 (October 1999): 1-37; and Richard Rosecrance, *The Rise of the Virtual State: Wealth and Power in the Coming Century,* New York: Basic Books, 1999.

[23]For this argument, see Kenneth Waltz , "The Myth of National Interdependence," in Charles P. Kindleberger, ed., *The International Corporation*,Cambridge: MIT Press, 1970; Waltz, "Globalization and American Power" ; Katherine Barbieri, "Economic Interdependence: A Path to Peace or a Source of Interstate Conflict?," *Journal of Peace Research* 33 (October 1996); and Barbieri, "International Trade and Conflict: The Debatable Relationship," (paper presented at the 35th Annual Convention of the International Studies Association, Minneapolis, MN, March 18-21, 1998).

[24]For the argument that countries' expectations about future trade openness affect the impact made by contemporary interdependence on conflict, see Dale Copeland, "Economic Interdependence and War," *International Security* 20 (Spring 1996): 5-41, and available through Expanded Academic ASAP; on the role of domestic regime-type on the impact of economic interdependence on conflict between countries, see Paul A. Papayoanou, "Interdependence, Institutions, and the Balance of Power," *International Security* 20 (Spring 1996): 42-76, and available through Expanded Academic ASAP; and Christopher Gelpi and Joseph Grieco, "Democracy, Interdependence, and the Liberal Peace," (unpublished manuscript, October 2000).

[25] For an overview of the earlier debates about developing countries and international economic integration, see, for example, Stephen D. Krasner, *Structural Conflict: The Third World Against Global Liberalism*, Berkeley: University of California Press, 1985; and, on the particular question of developing countries as hosts to multinational enterprises, see Theodore Moran, ed., *Investing in Development: New Roles for Private Capital*, New Brunswick: Transaction Books for the Overseas Development Council, 1986.

[26] For this argument, see Gary Gereffi, "Global Production Systems and Third World Development," in Barbara Stallings, ed., *Global Change, Regional Response: The New International Context of Development*, Cambridge: Cambridge University Press, 1995, pp. 100-142.

[27]This view is put forward by Peter Evans, "Transnational Corporations and Third World States: From the Old Internationalization to the New," in Richard Kozul-Wright and Robert Rowthorn, eds., *Transnational Corporations and the Global Economy*, New York: St. Martins Press, 1998, pp. 195-224.

[28]For this perspective, see Cal Clark and Steve Chan, "MNCs and Developmentalism: Domestic Structure as an Explanation for East Asian Dynamism," in Thomas Risse-Kappen, ed., *Bringing Transnational*

Relations Back In: Non-state Actors, Domestic Structures, and International Institutions, New York: Cambridge University Press, 1995, pp. 112-45.

[29] An extraordinarily helpful inventory of the vast literature on international financial crises is maintained and organized by Professor Nouriel Roubini at http://www.stern.nyu.edu/globalmacro.

[30] On this danger, see Jeffrey Garten, "Troubles Ahead in Emerging Markets," in Garten, ed., *World View*, (Boston: Harvard Business School, 2000), pp. 57-69.

[31] See Bill Grantham, "America the Menace: France's Feud with Hollywood," *World Policy Journal* 15 (Summer 1998); Mel van Elteren, "GATT and Beyond: World Trade, the Arts, and American Popular Culture in Western Europe," *Journal of American Culture* 19 (Fall 1996): 59-73; and Tyler Cowen, "French Kiss-Off," *Reason* 30 (July 1998): 40-47. It should be noted that Canada has expressed similar concerns that trade liberalization would accentuate America's domination of Canada's popular culture.