Global Political Economy

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Abstract: This paper traces the development and structure of the global political economy. After first explaining why politics and economics and inextricably connected, the paper goes on detail how these processes have become global and what impact this is likely to have on states and markets.

Introduction

It has become something of a cliché to observe that we live in a time of increasing globalisation. Yet to understand what is novel - and also what is unchanged - about the contemporary era, we need to look at the key features of the global political economy in their specific historical context. Before doing this, however, it is important to emphasise that even talking about a 'political economy' – and a 'global' one at that – makes a number of fairly contentious initial assumptions. Consequently, the first part of this essay explains why many observers think it is essential to link politics and economics as two deeply interconnected parts of a complex, and increasingly transnational, whole. Following this, I briefly outline some of the key historical developments that have driven the expansion of the evermore pervasive capitalist system that essentially constitutes the global political economy. And yet, despite the fact that hardly any part of the planet remains unaffected by, or unintegrated with, the global political economy, one of the great paradoxes of the contemporary period is that not only are some parts of the world incorporated into the global capitalist system in very different ways, but there are important and persistent variations in the types of capitalism that predominate in different regions. In other words, the global political economy is characterised by a number of ubiquitous features, but also by some surprising and enduring differences in outcomes and modes of organisation.

Political Economy in Historical Context

In their excellent introduction to theories of political economy, Caporaso and Levine (1992) identify a number of quite distinct conceptions of politics and economics. 'Politics' can refer to a government or more generally to 'the state'; it can refer to the distinction between the public and private sectors; and it can refer to the authoritative allocation of values. More generally, we can think of politics as being associated with the capacity to use power – generally legitimately – to organise and regulate collective social activity in particular ways. In this formulation, states have been and remain the most important actors. However, we also need to recognise that political activities can extend beyond states, involving not just civil society, but even the realm of 'private' individual behaviour and identity. Indeed, one of the consequences of explicitly linking political and economic processes is that we become aware of the complex, interactive, and mutually constitutive nature of these dynamic processes, which have impacts from the macro to the micro level (Hay 2002; Giddens 1985).

'Economics' also has a number of distinct meanings, according to Caporaso and Levine. It can mean economic calculation, or thinking in an 'economic' way about the best way of satisfying unlimited desires from finite resources. This formulation leads to a characteristically 'instrumental' approach to economic organisation and the 'rational' allocation of limited resources, primarily through market mechanisms. Another way of considering economics is as 'material provisioning'. Here the emphasis is on the production of goods themselves and the general satisfaction of human needs, not on the possible 'efficiency' of the process itself. Very crudely, we can think of these two approaches as being broadly reflective of those traditions of economic thought descended from Adam Smith, which claim that 'the market' is the most efficient allocator of resources, and those associated with Karl Marx, which are concerned with the material basis of society and the way economic activity affects social relationships more generally.

In both of these approaches the role of government or the state is potentially critical as political processes have the potential to actually determine the conditions under which economic activity occurs. This is why Caporaso and Levine propose a third way of thinking about economics, in which economics is synonymous with 'the economy' itself. It may seem odd to think of something as familiar as 'the economy' in this way, but it is important to recognise that, even if we can agree on quite where 'the economy' begins and ends in the contemporary era (Bryan 1995), in an historical context, the very idea of a discrete national economy that might be governed and regulated by governments in particular ways for specific purposes is a relatively new idea (Gordon 1991). This conception of the economy as a separate entity reflects both the greater understanding and capacity for management of economic processes that has been developing since the publication of Smith's *Wealth of Nations* in 1776, and the increased specialisation of the economics discipline itself. It is worth emphasising that Smith, Ricardo and Marx, would all have thought of themselves as political-economists and would have been surprised at the current disciplinary separation that is the norm today (Deane 1978).

Thinkers like Smith and Marx considered themselves to be political-economists because the historical development of both the state and economic processes more generally seemed to be interconnected. The emergence of the modern, sovereign nation-state was the result of a long-run historical process in which other less 'efficient' forms of political organisation were gradually eliminated (Spruyt 1996). One of the principal reasons that the state became the dominant mode of political organisation was that it proved to be particularly effective in facilitating processes and relationships that would eventually be described as 'capitalist'. Capitalism proved to be the most dynamic and productive form of economic organisation ever seen, and would give those countries in which it initially developed a decisive and lasting advantage over their rivals. Capital and coercion, as Charles Tilly (1990) pointed out, were directly linked to the dominance of 'the West', the spread of capitalism and the universalisation of the nation-state system as the principal form of international political organisation. Despite this close historical connection between nation-states and the growth of international economic activity, the growing integration of economic and technological processes that transcend national borders has led a number of scholars to make a conceptual distinction between international and global economic processes. Korbin (2002: 47 [emphasis in original]), for example, suggests that 'an international economy *links* distinct national markets; a global economy *fuses* national markets into a coherent whole.' This is a useful distinction, but as we shall see, one that cannot be drawn too sharply when much of the world is only marginally integrated into 'global' processes and national differences remain significant.

Indeed, the persistence of difference serves as a powerful reminder that there was nothing inevitable about the way the global political economy has evolved, and it is possible to imagine different ways of organising political activity and the production of goods and services. What we can say is that historically the nation-state has proved to be especially well equipped to provide and enforce the legal and institutional framework within which market economies might flourish (Giddens 1985). However, we need to remember that even in Britain, the birthplace of the industrial revolution and the supposed home of *laissez faire* economic policy, the disciplines, practices and individualistic social values associated with capitalism had to be forcibly imposed by a highly 'interventionist' state (Polanyi 1957). The application of political power to create a particular sort of economic order has been one of the recurring features of the emergent global political economy.

Political Economy Goes Global

Deciding just when - or if, for that matter – political economy became a 'global' affair is a hotly debated issue. Some 'world systems' theorists take the most extreme position on this, arguing that some sort of world-scale economic order has been in place for hundreds, if not thousands of years (Frank and Gills 1993). Of course, in some ways - even if it is only the most basic material and environmental ones - we have always inhabited one world. But what is of greatest interest here is that the gradual emergence of capitalism in Western Europe some four of five hundred years ago inaugurated a process that saw the intensification and extension of economic and social practices that had formerly been highly localised (Wood 1999). At one level, the expansion in the scale and scope of economic activities this period permitted was a function of improvements in technology, transportation and the desire to explore and proselytise. At another level, however, the opening up of the 'new world' and the establishment of colonies in the Caribbean, and the slave trade in Africa, were critically important spurs to the further economic development of Europe itself (Blaut 1993). Indeed, it is important to stress that from the outset, the emerging global political economy was one that conferred important 'first mover' advantages on those countries that developed economically and ultimately industrialised earliest; advantages that have not disappeared and which have arguably been entrenched by the political structure of the international economic order (Beeson and Bell forthcoming).

There is also a good deal of debate about the relationship between the international state system and the increasingly integrated transnational economic system, both of which consolidated under the auspices of European imperialism, especially during the nineteenth century (see Chase-Dunn 1998). Did the inter-state system actually precede colonialism, or was it to some extent a functional response to the 'needs' of increasingly mobile capital? Such questions may never be definitively resolved and will inevitably reflect the theoretical biases of the observer. What matters here is recognising that large parts of Africa, Asia and Latin America were effectively taken over by European imperialists and incorporated - on unfavourable terms - into an hierarchical order dominated by outside powers. It was an international order that suited the interests and needs of 'the West' in general, allowing both the continuing expansion of a dynamic but inherently crisis prone capitalist system, and the consolidation of European political power. For those on the receiving end of the colonisation process the combined impact of such profound economic and political pressures was to transform indigenous institutions of governance, to overthrow established ways of generating and distributing economic assets, and to revolutionise 'the ideas and values that gave meaning to life' (Abernathy 2000: 12).

Consequently, the course of economic development in the 'periphery' was frequently – sometimes permanently – skewed to reflect the needs of the expanding and industrialising economies of the 'core' economies of Europe, and later the United States and even Japan. The distinctive patterns of 'uneven' economic development that have been so characteristic of the global economy, in which many countries find themselves at the bottom of an international economic order supplying less valuable commodities to the wealthy core economies at the top, have their origins in this colonial period (Hoogvelt 2001). While there clearly is an international division of labour in which the established industrialised economies of the core tend to produce, valuable, sophisticated products that are associated with high value, high wage activities, while much of the periphery is associated with less valuable, labour intensive manufacturing or primarily production, it is important not to draw this picture too starkly. Not only has the spectacular economic development that has occurred in East Asia in particular cast doubt on static conceptions of endless domination of the periphery by the core, but even within the established core economies, not all economic activity is of high value or sophisticated.

The picture that emerges of the contemporary global economy is therefore complex, and we need to resist the temptation to making sweeping generalisations. Having said that, there are a number of striking features about the current organisation of economic activity across the world that merit highlighting. One of the most important long-run changes has been the rise in importance of transnational corporations. Whereas trade used to be conducted primarily between discrete national economies specialising in different products, now 'trade' frequently occurs within different branches of one company (intra-firm trade) or within one economic sector (intra-industry trade). Firms now have a range of possible strategies with which to access and produce for lucrative consumer markets. One of the key consequences of this has been a dramatic growth of foreign direct investment (FDI) as companies seek to position themselves close to wealthy consumers or gain insider status in valuable markets. Significantly, this has led to a highly uneven distribution of both trade and the increasingly important flows of FDI, the latter having effectively substituted for older style trade relations in many cases (Dunning 2000). Flows of trade and FDI are overwhelmingly concentrated on the rich, developed economies generating some remarkable paradoxes: the U.S., for example, is generally both the largest source *and* recipient of FDI. What this means for particularly disadvantaged areas like sub Saharan Africa, is that they are increasingly marginalised from the global political economy, making development more difficult and raising profoundly important questions about the role of the state in particular and development policies more generally.

It is worth emphasising in this context that there has been a remarkable turnaround in attitudes toward FDI. Whereas once it was associated with 'exploitation' and seen as a potentially unwelcome intrusion into 'national' economic and political activity, now it is avidly pursued by governments across the word as they compete with each other to provide the most 'business friendly' environments (Gill 1998). Whatever the merits of such strategies, it is important to make a distinction between this sort of direct investment in productive activities in the 'real' economy, and the sort of 'indirect' activity associated with portfolio investment, bank lending and other highly mobile, capital flows. As far as this last form of capital mobility is concerned, the debates are much more complex (Beeson 2003a), and their association with economic and financial crises has led many prominent commentators to question their usefulness, especially as far as the developing world is concerned. At the very least, such debates serve as a powerful reminder that the global system is characterised by vast disparities of economic power and differing capacities to accommodate massive flows of footloose capital. It is these sorts of developments that have been central to debates about the role of political power in an international economic order characterised by greater transnational integration and massively increased scale of private sector controlled economic assets (Rodrik 1997).

States and markets

The conditions in which economic activity has occurred have always been highly dependent on the activities of states. Capitalism has been especially reliant on the effective application of political power to provide a regulatory framework that protects private property, and which legitimates particular forms of social relationships. In a global political economy, however, there are major debates about what the state's role should be. Indeed, there is a basic question about whether the state any longer has the capacity to provide an adequate regulatory infrastructure (Cerny 1995). Many believe that the international system is moving inexorably toward one of global governance, in which the state is simply one actor amongst an array of public, intergovernmental and private sector organisations that assume responsibility or claim authority in a range of areas formerly under the jurisdiction of individual nation-states.

That such a debate should become so prominent over the last few decades is unsurprising. Not only has the scale of transnational flows of capital, both direct and indirect, become so much more extensive and pervasive (Held et al 1999), but states appear to have become less able or willing to 'intervene' in market-centred economic processes. Again, there are important historical reasons underpinning such developments. The apparent exhaustion of Keyensian policies in the 1970s, combined with the collapse of the Bretton Woods system of managed interdependence and fixed exchange rates that was established under U.S. hegemony in the post-war period, all tended to encourage a major reconfiguration in the relationship between state and market power. The remarkable expansion in the size of money markets, for example, meant that financial sector interests enjoyed a form of 'structural' power over governments (Andrews 1994), an influence that was reinforced by the activities of private sector actors like credit rating agencies (Sinclair 1994).

At the same time that political and economic power was being realigned, there was a major change in the sorts of economic ideas that informed public policy, especially in the so-called Anglo-American economies. Ideas associated with neoliberalism and the 'Washington consensus' became increasingly influential, and the sort of activist role for government associated with the Keynesian era became much less fashionable. Some observers argued that these developments in the late twentieth century had caused an unprecedented decline the power and authority of states as 'a result of technological and financial change and the accelerated integration of national economies into one single global market economy' (Strange 1996: 14). As we have seen, however, although capitalism's global reach and dominant position might be unparalleled, its impact has been highly uneven. Not only is much of the world integrated into global market processes on only the most marginal or unfavourable of terms, but states are frequently not being affected by, or responding to, supposedly global processes in the same way.

Such developments can be partly explained by differences in the relative power of individual states at both the domestic and international level. Different states have different 'capacities' to construct and implement policy, something that is a function of the competence of various governmental agencies in particular and the relative independence of the state from powerful vested interests more generally (Hobson 2000; Polidano 2000). At another level, individual states have profoundly different abilities to influence the international system in general. Put simply, some countries are rule takers rather than rule makers. It is not necessary to subscribe to conspiracy theories to recognise that the international system is dominated by the U.S. in particular and by wealthy 'West' more generally. Even if all nations are either losing power to, or sharing authority with, new intergovernmental agencies like the WTO and the IMF, some states are plainly more able to influence their actions than others (Woods 2002). The global political economy, in other words, continues to reflect the interests of the most powerful countries, even when all states are being affected by increasingly universal forces.

Not only do states have different abilities to influence the way the global political economy operates, but the domestic responses and organisational structures of individual states and 'national' economic systems continue to display surprising differences (Berger and Dore 1996; Coates 2000). The organisation of capitalism in France, Germany or Japan continues to display important differences in corporate strategies, industrial relations, and – perhaps most importantly – forms of state organisation and activity. While there is no doubt that long run structural changes in the global economy have encouraged a degree of 'convergence' or greater similarity in the way formerly national political-economies are configured, important differences persist. The regulation of finance capital, for example, the economic sector in which global processes have gone furthest, and which seem least susceptible to government control, continues to show surprising differences even within the sort of liberal forms of capitalism that prevail in Britain and the U.S. (Coleman 2003). Indeed, it is not inconceivable that if the U.S. succumbs to the sort of economic and financial crises that are associated with a lightly regulated finance sector, which have routinely plagued, Europe, Latin America and Asia, then it is possible that states may move to reassert more direct control over the global economy. It is important to remember that the current configuration of the global economy is not simply the inevitable consequence of technological change or inherent economic rationality, but reflects a series of political decisions that allowed such developments to occur and which were primarily driven by the U.S. (Strange 1994).

The Future of the Global Political Economy

Absent a crisis of systemic proportions, however, academic and policy debates are likely to continue revolving around the ways in which states acting individually, collectively or in cooperation with other non-state actors can manage the global economy. Although the transnationalisation of flows of trade, capital and even ownership and control structures, have raised important theoretical and practical problems about the status of national economies and the way in which they are managed, states remains critically important determinants of economic outcomes. Indeed, as Linda Weiss (1998) has persuasively argued, the idea that states have become powerless in the face of global forces is something of a myth. However, we need to distinguish carefully between those states that have a capacity to influence domestic outcomes, let alone international ones. Some states clearly do retain the ability to reconfigure domestic relations in ways that offer significant competitive advantages, policy approaches which may allow them to retain distinctive social accommodations like the welfare state (Garrett 1998). Other states, however, may have a limited capacity to assert authority or influence even within national borders (Jackson 1990).

Yet even the most powerful states will have to confront an underlying tension that is central to the political-economic nexus, and which is thrown into sharp relief by an increasingly integrated global order. States are necessarily bound to a fixed, geographically delimited space. Capital, on the other hand, is increasingly mobile and unconstrained by national borders. Reconciling the competing influences of what Giovanni Arrighi (1994) describes as the ‘logics’ of capitalism and territoriality will be one of central challenges for policymakers everywhere in the twenty-first century. The key difficulty facing policymakers at the beginning of the twenty-first century is that systems of order and rule are no longer necessarily coterminous with, or exclusively dependent on, territorially-based power. Consequently, Ruggie (1993: 165) argues that territoriality has been ‘unbundled’, as authority and political power has shifted toward the transnational realm.

It was precisely these sort of developments – greater economic integration and an apparently necessary degree of political cooperation – that brought a political-economy approach back into the foreground of international relations during the 1970s (Keohane and Nye 1977). At that time, greater interdependence seemed inevitable and multilateralism seemed a functionally inescapable part of the global political economy. While such integration may continue to be an important part of the global political economy, it is quite possible that it will occur predominantly at the regional rather than the global level (Hettne et al 1999). As we have seen, not only are trade and investment flows highly concentrated, but they display a strong regional bias. The European Union is the quintessential reminder of just how important regional factors can be in meditating apparently global forces. The development of the NAFTA and the growing interest in regionally-based political and economic co-operation in East Asia suggest that this trend is likely to consolidate (Beeson 2003b).

The future global political economy is, therefore, likely to be characterised by striking paradoxes, major tensions, but important continuities, too. On the one hand, capitalism’s dominance as the universal form of economic and social organisation seems assured for the foreseeable future. China’s accession to the WTO is emblematic of this reality, and of the end of major alternatives to capitalist hegemony. However, it will be a capitalist system that is characterised by continuing differences in economic structures, social relations and the sort of roles that are undertaken by individual states. It will also be a system that displays striking differences in the capacities of states to act domestically and internationally, and profound continuing differences in levels of economic development as a consequence (Leftwhich 2000). Perhaps the key issue in this regard will be the capacity of the various actors and agencies that effectively constitute the global political economy to address major disparities in wealth distribution and life-chances – disparities that are increasingly seen as fundamental threats to the security of the international system in general (Duffield 2000). If such a system continues to be seen as one in which the wealthy world uses its political power in ways that generate inequitable economic outcomes then this does not bode well for its overall stability or durability – despite the absence of obvious alternatives.

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