The State in the Era of Globalisation

Globalisation: A Brave New World

The State is withering away!

The End of History!

A Borderless World!

A Global Village.

The Collapse of Time and Space!

The Emerging Political Economic Topography of the 21st Century

- Large Political Entities such as the European Union, NAFTA, China, India (SAARC?)
- Surrounded by smaller states who are largely dependent on each of these entities
- Served by an archipelago of miniature states, tax havens

How does IR conceptualise change?

- Conventional IR: Security Threat
- Radical IR: Neo-liberal Capitalist expansion
- Evolutionary Institutionalist IR: continuing experiments in state/market relationship
- The three perspectives are not mutually exclusive

Institutional political economy (1)

Markets are embedded in cultures and institutions

Coordination and control among parties involved in economic exchange emerges as distinct responses to societal conditioning.

Institutional Political Economy (2)

The formation of markets is seen as part of state-building;

Modern states create the institutional conditions for markets to be stable;

Each society is a distinct mode of coordinating economic action (‘Varieties of Capitalism’)

Evolutionary Institutionalism: An IR Perspective

The division of the world into separate sovereign entities results in a plethora of institutional forms.

Each state, however large or small, is an experiment in state/market relationship.

Cooperation and competition among different societal 'systems' contributes to the diffusion of institutional and cultural forms and may explain a degree of convergence among so many states.

Five Guiding Principles + A Theoretical Framework

1 Structure

2 Economic Interest and Government Policy

3 Externalising contradictions

4. Cumulative Causation

5. Decentralised order/Anti-hegemony

A Metaphor for Structure (1)

International Structures consist of a perceived distributional sets of penalties and rewards at a given moment.

‘Actors’ take advantage of these structures, ‘flow with them’; subvert them, etc.

Interests and Policy (2)

Governments are rarely mere 'stooges' of key economic interests or 'dominant capital'

But governments rarely adopt policies that undermine vital interests of their principal backers

Business interests are best mobilised when they feel threatened

Policy therefore, is often reactive.

Externalising contradictions (3)

Politics, like economics, is about anticipated futures.

When confronted by insurmountable conflicts or difficult dilemmas between existing interests and anticipated futures, governments tend to try and *externalise* their problems.

The ‘international’ is a dumping space for unresolved domestic problems.

Cumulative Causation (4)

International Structures evolve according to the Darwinian principle of cumulative change or cumulative causation.

Evolution has no foreordained goal, but a continuity of ‘cause and effect’ without any trend, any final term, or consummation. It is "blindly cumulative causation."

Action has structural consequences and change is irreversible.

De-centralised process of order and change (5)

International order emanates less from the coordinated and intentional policies of powerful states

The international system is a huge transmission belt of ideas, practices and institutions

A Theoretical Framework

Start with a thorough profile of the institutional political character of a given state or states – a profile of their domestic political processes.

Place the 'domestic political process' within a grid of competitive relationship or horizontal relationship

Place the domestic political process within a vertical grid of direct relationships

US – China

- China's foreign reserve hit $1 trillion in late 2006
- The US economy is running balance of trade deficit with China.
- China, in return, buys US treasury bonds.
- (Estimated that 70% of China's reserves are invested in dollars).
- Strictly speaking, China is subsidising rich American consumers while China's health care, education and social safety net are starved of funds.
- Strong Vertical link between the two economies

WHY? Principle (3): externalising your problems

- The Chinese strategy of development is export-led, founded on large FDI flows.
- The U.S. is the major importer of Chinese goods
- China is facing rising protectionism, partly for economic reasons, partly for human rights abuses
- China shrewdly invests in U.S. treasury bonds to ensure positive political will and continuing market for its goods
- US does not wish to raise taxation, and would like to sustain low-inflation consumer-based growth (Principle 2 – never offends your main backers)
- Principle (4): everyone is happy for the moment, but the moment cannot last
- Principle (5) Theory of hegemony or hegemonic order explains very little

Principle 2: Economic interests

Wall Mart Stores	Retail
Exxon Mobile	Oil
General Motors	Automotive/Defence
Conoco/Phillips	Oil
General Electric	Defence
Ford Motors	Automotive/Defence
Citigroup	Banking
Bank of America	Banking

Explains the lack of strong competitive link and the emergence of a strong vertical link

Key question

- China is only the latest in developing such pattern of vertical links: Japan, Taiwan, South Korea developed similar links
- Other economies, European or Latin American, did not
- How and why the U.S. economy establishes such patterns of relationship with the East Asian economies and what does it tell us about the future?

An Evolutionary Narrative

Evolution as largely independent trajectories that can be analysed with the aid of the five principles + the theoretical framework

Like a jigsaw puzzle, the different independent trajectories are combined to produce such vertical patterns in East Asia

The narrative is largely retrospective

Key moments

1945	Rise of the internationalist faction in the U.S.
1950-51	End of Post WWII reconstruction, The military-industrial complex in the U.S.
1970s-80s	'Crisis of Fordism'. Continuation of existing political economic profile
1978	The Chinese Communist Party Congress

Internationalism in the U.S. 1945

Liberal–Corporatist synthesis:

Free market

Bretton Woods

U.S. Hegemony

Political cleavage:

Internationalism vs. isolationism

Rise of Internationalist faction

- Elimination of European and Japanese competitors – Weakening of Horizontal links
- Direct Control of Germany, Japan, Italy and France
- Strengthened Vertical links

Third important moment

- The Crisis of the 1970s and 1980s
- S0-called ‘crisis of Fordism’
- A new phase of internationalisation

Profit Rates

U.S. Industry is ill prepared

The profile of US export businesses began to emerge: export of hi-tech businesses (aerospace) combined with raw materials and foodstuff – inelastic demand

The military-industrial complex relies primarily on government spending and effectively, on a ‘planned economy’.

The car industry has undergone a quiet revolution in the 1950s: the whiz kids such as Robert McNamara at Ford.

Since J.P. Morgan in 1901, the steel industry set a different pattern of control. High concentration on the domestic market: control of raw materials and little innovation.

A Quiet Revolution in Japan

An unnoticed revolution was taking place in Japanese manufacturing: 'Just in time' and 'lean' production techniques

Average manufacturing cost of cheap car

	American Car	Japanese Car
1952	$1500	$2950
1959	$1750	$1850
1964	$1900	$1400
1970	$2215	$1210

Japanese exports as % of OECD, 1976

Motorcycles	90%
Televisions and radios	70%
Ships	43%
Watches	23%
Cars	20%

Japanese competition misunderstood

- Just in time (JIT) and lean production technologies dramatically cut overhead costs
- However, traditional big business accounting assumed that overheads were fixed % costs
- US and UK's businesses response to declining competitiveness centres on cutting labour costs
- Failure to improve competitiveness, but important implications to international structures

US and UK's business respond by taking advantage of structural opportunities

Relocation or threat of relocation of 'traditional' industries, textiles, electronics etc. to low-cost countries

Aided by highly efficient offshore financial market (the Euromarkets)

Favoured destination for relocation are countries that oppress organised labour: military dictatorships (Taiwan, Brazil), 'strong regimes' (Singapore), even 'communist regimes' (Poland).

The NICs, adopted U.S. innovation from the early 1950s in Puerto Rico, the export processing zone

The New International Division of Labour

Early 1970s: Signs of a new international division of labour and new phase of internationalisation of production.

The core triad of the North American, Western Europe and Japan and joined by the 14 Newly Industrialised Countries (NICS).

The ideology of ‘business friendly regimes’ and the so-called ‘Washington Consensus’.

U.S. government response: The Reagan revolution is not a revolution at all!

- Cutting taxes, particularly for the wealthy and business, to spur investment;
- Cutting domestic government spending;
- Increasing military spending
- Reducing government regulation
- (Principles 2, 3, 4 & 5: don't offend domestic interests; try and externalise your problems; produce unwittingly irreversible change; make it appears that you are in control – you are not)

The Reagan re-armament programme

	% of GDP
1980	4.9
1981	5.1
1982	5.7
1983	6.1
1984	5.9
1985	6.1
1986	6.2
1987	6.1
1988	5.8

Increase in Total Debt

- Unprecedented rise in borrowing during Reagan years, an average of 13.8% per year
- The increase in total debt under Reagan was larger than all the debt accumulated by all the presidents before him combined.
- From 1983 through 1985 the debt was growing at over 17% per year.
- Nation's debt went from just under $1 trillion to over $2.6 trillion, a 200% increase.

Deregulation of Finance

- Deregulation of finance to help recycle national debt and spur consumption
- The Monetary Control Act 1980; Garn-St. Germain Acts of 1982.
- Revolution in mortgage refinancing,
- Triggered a borrowing shock of huge macroeconomic magnitude
- Rise in household, corporate and national debt, rise in interest rates,1983-6

Debt as % of GDP

	1980	1990
Household/US	55%	72%
Japan	54%	76%
UK	39%	80%
Corporate/US	74%	91%
Japan	149%	196%
UK	94%	168%
Government/US	19%	36%
Japan	17%	8%
UK	47%	30%

Principle 3: externalising problems

- The U.S. administration attempts to sustain the broad domestic coalition that had brought it to power
- Maintain the web of vertical and horizontal links established worldwide
- The effect: by mid '80s, rising dollar combined with rising imports and declining exports.
- Emerging 'Middle Class' consumption patterns
- Rising imports from Japan, Europe, SE Asia and L. America.

Household debt, % of GDP, Europe

	1980	1990
Germany	10%	11%
Italy	6%	10%
France	44%	53%

European businesses opt for niche strategies

- European Growth is not based on household debt but on export
- Choose niche strategies, retreating to the high value-added segments of the markets
- Creating niches within traditional markets such as textiles, car, even electronics

Innovation and Niche Strategies

- Development of what Sable and Piore call 'flexible accumulation'
- The rise of the 'Third Italy' is a case in point
- 'Third Italy' owes much to institutional and economic reforms that regional and city council introduced already in the 1950s

Japan and Taiwan

- Japan and Taiwan adopt intentional policy of purchasing US debts
- Maintain US purchasing power/ imports or their goods
- Japan adopts principle (3) Externalising contradictions

Japan's domestic political process

- Ruling party supported by the rural population, small retailers and big business
- Big business success led to demand for reciprocal trading arrangements with the U.S.
- Japan would have to open up is agricultural and retail markets, both a strength of US businesses
- S/term reaction: support US debt to delay US protectionism
- L/term: expand production in Asia, US and Europe – create new vertical links

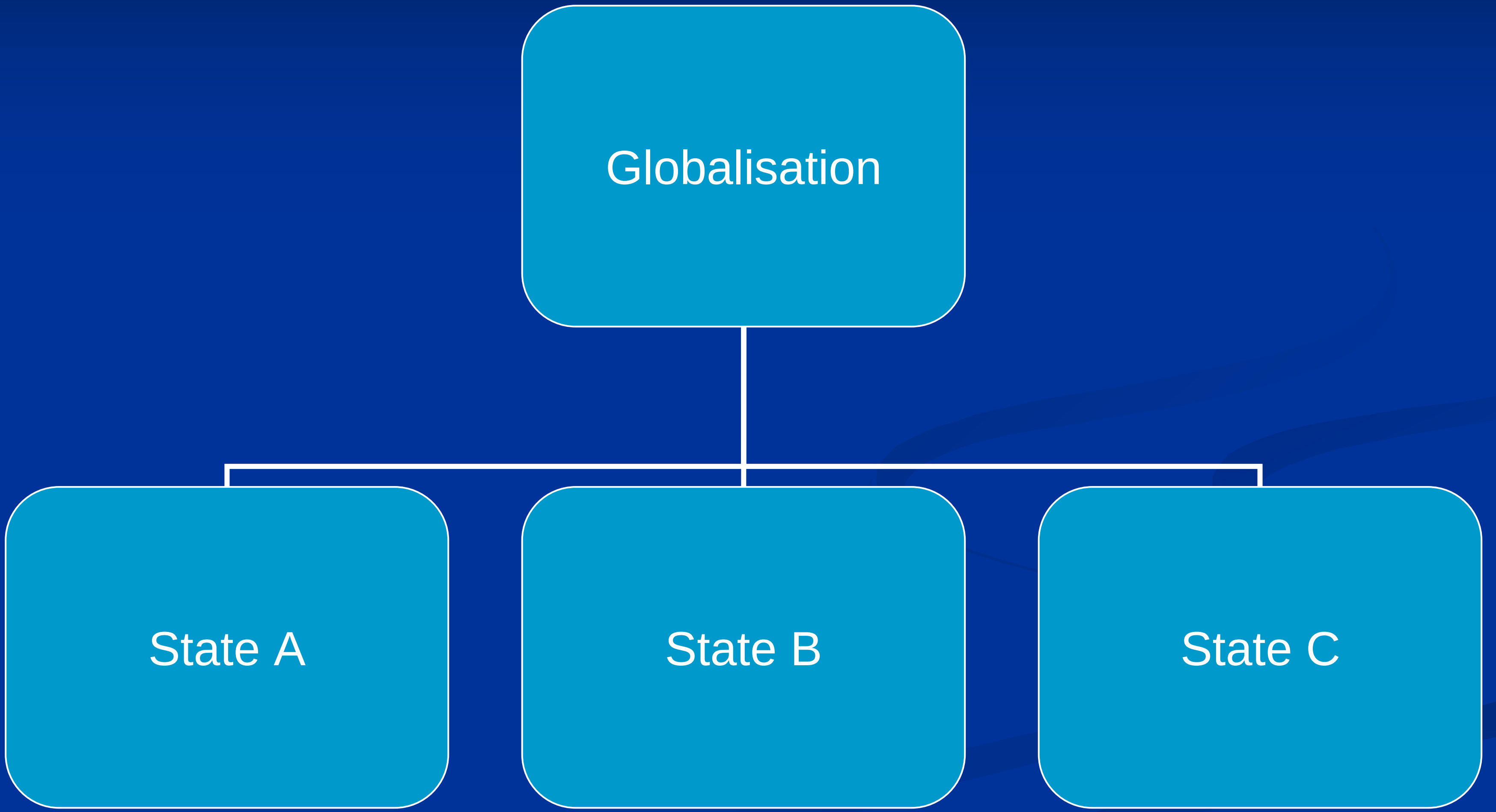
Combined Effects

- Business friendly regimes advocated by Anglo-Saxon countries
- Successful export oriented policies of East-Asian economies
- Successful export oriented policies of some European countries adopting flexible accumulation
- Re-orientation of world market as the U.S., UK and OPEC run balance of trade deficits

Principle 4: Cumulative Causation

- Combination of structural and ideological conditions leads to a major shift in political discourse
- The new Ideology, the ideology of the competition state
- The state should provide the infrastructural conditions that attracts capital to its territory

Competition State



States compete over market share

Structural dynamics in the era of the competition state

- Asymmetrical relationship between states and markets as mobile business learns to play one state against the other
- Tax, subsidies, 'red tape', infrastructural support
- Amounts to 3 to 4% of GDP transferred from tax payers to shareholders
- The two largest markets, the US and Nafta, the EEC and later the EU reverse the trend

Enter China

China's road to capitalism was internally generated, largely due to serious economic problems inherited from the cultural revolution.

In December 1978, the Chinese Communist Party held Third Plenum of the 11th Party Congress. China has embarked on its far-reaching marketisation reforms.

The reform began with a modest goal: simply to allow farmers to decide what to produce and to improve the efficiency of SOEs.

Lets start with Principle 1

1. Initially, as expected, the Soviet system of planning was the preferred route.
2. But planning was severely disrupted during the cultural revolution.
3. Classical institutionalist' ideas: Unintended consequences of Mao's policy: complete the disruption of the planned economy system; high unemployment in the country-site; pragmatism among the new generation that suffered from the cultural revolution.

Route 1 is blocked, let's try Route 2: Emulation

Emulated techniques adopted by authoritarian corporatist regimes, particularly the neighbours. Adopted corporatist strategy was largely copied from other authoritarian regimes.

Like others authoritarian regimes, reform was restricted to only certain areas and Special Economic Zone – classical case of a state trying to control change.

Reforms in agriculture and in the southern province of Guangdong, along with selected capitalist experiments in the Special Economic Zones.

Not extended to the core of the socialist system in urban areas.

Cumulative Causation

Certain internal dialectics ensued, as from 1984 reforms are enacted to correct contradictions of earlier reforms that might destabilise the party's power, and the need to maintain legitimacy of the population.

The new reforms began to build a new political coalition and generating its own momentum.

A feedback loop: as the relative economic success also increases the power of these groups.

Why the preference for foreign investors?

Principle 3: externalising contradictions

The party initially preferred foreign investors to indigenous private entrepreneurs, for fear that the economic power of the latter would translate into political influence.

Competition State

- Paradoxically, the competition state is entirely consistent with a one party-system
- As long as the state is big enough
- ‘Communist party’ can happily adopt globalisation but control the state
- Principle 1: Structural opportunities

Conclusions

- Try to shift away from a rigid view of the international system to a dynamic, evolutionary perception of change.
- Change takes place at various levels and then is diffused throughout the system.
- Rather than theory of the system, the international system, a theory of system change, centres on how the processes of change can be conceptualised.

Demonstrate that change often take place as new sets of opportunities and rewards ‘open up.’