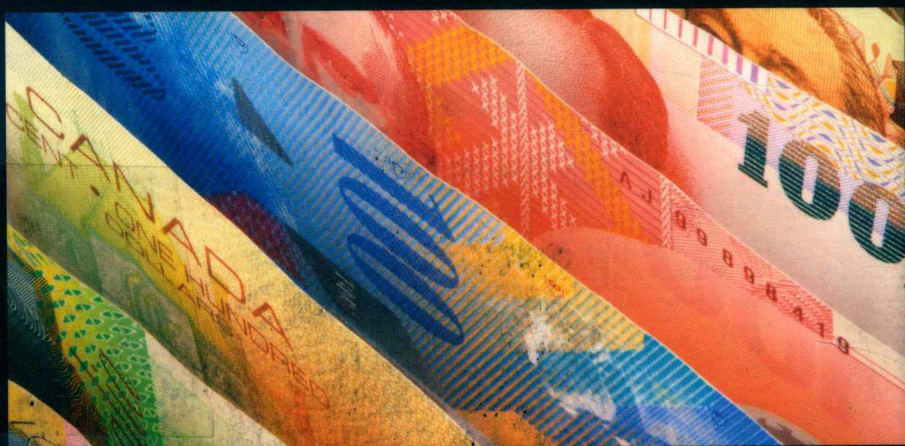


# GLOBAL POLITICAL ECONOMY

Theory and Practice

Fifth Edition



THEODORE H. COHN

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THEORY AND PRACTICE

*Fifth Edition*

**Theodore H. Cohn**

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# PREFACE

While I was revising this book for the fifth edition, “subprime” lending to U.S. borrowers who did not qualify for market interest rates became a subprime mortgage crisis. The borrowers could not repay their loans, and it was not long before the mortgage crisis evolved into a financial crisis with global dimensions. This crisis illuminates many of the key issues I discuss in the current edition. First is the globalization issue, one of the main themes of this text. Financial globalization has reached the point that banking and financial crises today often have global effects. The second issue relates to the close ties between domestic and international issues in international political economy (IPE). As this book discusses, the subprime crisis began at the domestic level, but it always had international elements; and the global repercussions have been felt domestically by investors, consumers, and workers around the world. The third issue relates to the changing role of the United States as the leading economic power (or “hegemon”). Although the subprime crisis demonstrates the centrality of the U.S. position, it also shows that the United States is becoming more dependent on others in areas such as finance. This book examines the changing U.S. position in the major areas of IPE. The fourth issue relates to the question of who is responsible for the crisis. As with most IPE issues, the allocation of “blame” depends on one’s theoretical point of view. Different theorists blame the mortgage lenders; the mortgage borrowers; and the regulatory failings of the U.S. Federal Reserve, Securities and Exchange Commission, and state insurance regulators. Some theorists also blame China for manipulating its currency, sending its surplus earnings into the United States, and creating a “mortgage bubble,” and others blame our capitalist-oriented global system. Some assert that no one is to blame because the crisis resulted from unanticipated domestic and international events, while others argue that all of the above groups are to blame because they (like economists who did not predict the crisis) assumed that the market would regulate itself.

This book introduces undergraduate and beginning graduate students to the complex and important issues of global political economy. I wrote the book because of a conviction that students can understand the broader implications of IPE issues only by examining them in a theoretical context. Without the organizing framework of theory, it is difficult to make sense of the growing body of facts and statistics in the global political economy. Theory helps us identify a degree of order in the complex world of IPE and enables us to go beyond description and engage in causal explanations and modest predictions. Thus, the text takes a comprehensive approach to the study of IPE, focusing on both theory and practice. To help draw connections between theory and the substantive issues, the book focuses on three major themes: globalization, North–North relations (among developed countries), and



North-South relations (among developed and developing countries). Considerable space is also devoted to the transition economies of China, Eastern Europe, and the former Soviet Union (FSU) countries, which are becoming increasingly integrated in the capitalist global political economy.

Although globalization is a major theme of the text, I do *not* claim that it is leading to a world society or world government. Indeed, considerable space is devoted to the importance of regional blocs and organizations such as the European Union (EU) and the North American Free Trade Agreement, and Chapter 8 focuses on the subject of regionalism. Furthermore, I discuss the interconnections between economic and security issues and domestic and international issues. Domestic-international interactions are generally more important in IPE than in security issues.

## FEATURES

An important distinguishing feature of this book is its emphasis on the interaction between theory and practice. I believe that students understand theory better when they see its practical applications and that theory in turn gives meaning to substantive IPE issues. Chapters 3-5 provide a comprehensive overview of the most important theoretical perspectives in IPE, and Chapters 6-11 examine monetary relations, global and regional trade, multinational corporations, international development, and foreign debt and financial crises. Most importantly, Chapters 6-11 include many references to the theoretical perspectives, and each of these chapters concludes with a boxed item on "Considering IPE Theory and Practice." Another distinguishing feature of this book is its emphasis on the role of formal and informal institutions in IPE. As a result of globalization, there is a much greater need for global governance in IPE. However, it is becoming more difficult to manage the global economy, and formal and informal institutions such as the International Monetary Fund (IMF), World Bank, World Trade Organization (WTO), Group of 8 (G8), and Group of 20 (G20) are subject to numerous criticisms. In some critical areas of IPE such as the relations between states and multinational corporations, there is a notable lack of global governance. Chapter 2 introduces the institutional framework for managing the global economy, and basic organizations such as the IMF, World Bank, and WTO are discussed throughout the book. Considerable emphasis is also given to the role of private actors such as multinational corporations, nongovernmental organizations, and civil society groups in global economic governance.

A third important feature of this book is its emphasis on the historical evolution of issues. The book assumes that some historical background provides us with a better understanding of contemporary IPE issues. For example, knowing the history of the informal General Agreement on Tariffs and Trade (GATT) helps explain why the major trading countries replaced it with the formal WTO in 1995, and knowing the history of the 1980s foreign debt crisis helps explain why some developing countries are still plagued with foreign debt problems. A fourth feature is this book's treatment of North-South issues

between developed and developing countries. In addition to devoting Chapters 10 and 11 mainly to North–South issues (international development, and debt and financial crises), I integrate the discussion of North–North and North–South issues throughout the book. This reflects the fact that most developing countries are becoming increasingly integrated in the capitalist global economy, and that some Southern states such as China, India, and Brazil are becoming major actors. A fifth feature is the emphasis on regional as well as global relations in IPE. One of the most controversial issues in IPE today is the proliferation of regional trade agreements, and Chapter 8 is devoted to this subject; regionalism is also discussed in other chapters. A sixth feature is the emphasis on domestic–international interactions in IPE, for example, in Chapter 4 on liberalism and Chapter 7 on global trade. One effect of globalization is the blurring of boundaries between international and domestic relations. Finally, this book discusses the broad range of IPE economic concepts as clearly as possible for students new to the subject, without oversimplifying them. To make the concepts more “user-friendly,” examples are often provided. Other efforts to make this complex subject understandable to students include study and research aids such as sample questions and detailed suggestions for further reading at the end of Chapters 1–11.

## **NEW TO THIS EDITION**

The fifth edition of this book has extensive revisions, reflecting the major changes in the global political economy (such as the current financial crisis) and the newer theoretical developments in IPE. The factual material and statistics are fully updated, and a section on *Further Reading* is now included after the Study Questions at the end of Chapters 1–11. The Further Reading section provides detailed recommendations to students and is designed to provide them with more guidance to the important literature in the field than the Bibliography provided in earlier editions.

This edition contains substantial revisions to the theoretical chapters (3–5). The chapters now compare two methods of theory construction: rational choice and constructivism. Chapter 3 on realism has a more detailed discussion of the challenge that the EU, China, and Japan pose to U.S. hegemony. Chapter 4 on liberalism contains more discussion of domestic–international interactions and two-level game theory and a revised discussion of prisoners’ dilemma. The most extensive theoretical changes are in Chapter 5, which is now entitled “Critical Perspectives.” The critical perspectives discussed include historical materialism, constructivism, feminism, and an entirely new section on environmentalism. Environmental theory is also applied to issues in some of the substantive chapters in Part 3.

The substantive chapters also contain major revisions. Chapter 6 on international monetary relations has a more detailed discussion of financial globalization, the future of the U.S. dollar as the key currency, and the possible future role for the euro. The chapter also introduces the issue of sovereign

wealth funds and addresses the implications of the 2008 global financial crisis for U.S. foreign debt (this issue is examined in more detail in Chapter 11). Chapter 7 is now on global trade relations. It provides a clearer discussion of some trade theories (e.g., the theory of comparative advantage) and devotes more attention to the domestic politics of trade. The chapter also examines the relationship between trade and the environment and introduces the subject of “fair trade” for marginalized workers. The final section of Chapter 7, “Considering IPE Theory and Practice,” focuses on competing theoretical explanations for the breakup of the WTO Doha Round, which has major implications for global trade relations. Chapter 8 on regionalism and global trade discusses fewer regional trade agreements, but provides more in-depth discussion of them. The chapter also introduces three theoretical approaches to European integration: neofunctionalism, liberal intergovernmentalism, and constructivism. The “Considering IPE Theory and Practice” section focuses on whether regional trade agreements are stepping stones or obstacles to global free trade. This is a highly contentious issue because of the collapse of the WTO Doha Round talks and the proliferation of regional trade agreements.

Chapter 9 on multinational corporations (MNCs) now discusses the corporate social responsibility concept and the relationship between foreign investment and sovereign wealth funds. The “Considering IPE Theory and Practice” section discusses competing theoretical views of corporate social responsibility. Chapter 10, on international development, adds a discussion of “bottom-up” approaches to development such as microfinance. The section on official development assistance now explores the long-term debate regarding the value versus pitfalls of foreign aid. This edition moves the discussion of foreign debt and financial crises from Chapters 7–11, because it is easier for students to understand these crises after they have read about theories of international development (now Chapter 10). Chapter 11 on foreign debt and financial crises updates the discussion of foreign debt. Most importantly, the chapter compares the recent 2008 global financial crisis with earlier financial crises.

In sum, the fifth edition of this text is fully updated and contains extensive revisions that reflect the many changes occurring in the global political economy and in the academic study of IPE.

## SUPPLEMENTS

Longman is pleased to offer several resources to qualified adopters of *Global Political Economy* and their students that will make teaching and learning from this book even more effective and enjoyable.

## For Instructors

**MYPOLISCIKIT VIDEO CASE STUDIES FOR INTERNATIONAL RELATIONS AND COMPARATIVE POLITICS** Featuring video from major news sources and providing reporting and insight on recent world affairs, this DVD series helps instructors integrate current events into their courses by letting them use the clips as lecture launchers or discussion starters.

## For Students

**LONGMAN ATLAS OF WORLD ISSUES (0-321-22465-5)** Introduced and selected by Robert J. Art of Brandeis University and excerpted from the acclaimed Penguin Atlas Series, the *Longman Atlas of World Issues* is designed to help students understand the geography and major issues facing the world today, such as terrorism, debt, and HIV/AIDS. These thematic, full-color maps examine forces shaping politics today at a global level. Explanatory information accompanies each map to help students better grasp the concepts being shown and how they affect our world today. Available at no additional charge when packaged with this book.

**NEW SIGNET WORLD ATLAS (0-451-19732-1)** From Penguin Putnam, this pocket-sized yet detailed reference features 96 pages of full-color maps plus statistics, key data, and much more. Available at a discount when packaged with this book.

**THE PENGUIN DICTIONARY OF INTERNATIONAL RELATIONS (0-140-51397-3)** This indispensable reference by Graham Evans and Jeffrey Newnham includes hundreds of cross-referenced entries on the enduring and emerging theories, concepts, and events that are shaping the academic discipline of international relations and today's world politics. Available at a discount when packaged with this book.

**RESEARCH AND WRITING IN INTERNATIONAL RELATIONS (0-321-27766-X)** Written by Laura Roselle and Sharon Spray of Elon University, this brief and affordable guide provides the basic step-by-step process and essential resources that are needed to write political science papers that go beyond simple description and into more systematic and sophisticated inquiry. This text focuses on the key areas in which students need the most help: finding a topic, developing a question, reviewing literature, designing research, analyzing findings, and last, actually writing the paper. Available at a discount when packaged with this book.

**CAREERS IN POLITICAL SCIENCE (0-321-11337-3)** Offering insider advice and practical tips on how to make the most of a political science degree, this booklet by Joel Clark of George Mason University shows students the tremendous potential such a degree offers and guides them through: deciding whether political science is right for them; the different career options available; job requirements and skill sets; how to apply, interview, and compete for jobs after graduation; and much more. Available at a discount when packaged with this book.

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***Theodore H. Cohn***

# ACRONYMS AND ABBREVIATIONS

<b>ACP:</b> African, Caribbean, and Pacific	<b>ECSC:</b> European Coal and Steel Community
<b>ADD:</b> antidumping duty	<b>ECU:</b> European currency unit
<b>AFTA:</b> ASEAN Free Trade Area	<b>EDF:</b> European Development Fund
<b>AID:</b> Agency for International Development	<b>EFTA:</b> European Free Trade Association
<b>AIDS:</b> acquired immunodeficiency syndrome	<b>EMS:</b> European Monetary System
<b>ASEAN:</b> Association of Southeast Asian Nations	<b>EMU:</b> European Economic and Monetary Union
<b>BIS:</b> Bank for International Settlements	<b>ERM:</b> exchange-rate mechanism
<b>BITs:</b> bilateral investment treaties	<b>EU:</b> European Union
<b>BRIC:</b> Brazil, Russia, India, and China	<b>Euratom:</b> European Atomic Energy Community
<b>CACM:</b> Central American Common Market	<b>FDI:</b> foreign direct investment
<b>CAP:</b> Common Agricultural Policy	<b>FIRA:</b> Foreign Investment Review Agency
<b>CARICOM:</b> Caribbean Community and Common Market	<b>FSU:</b> former Soviet Union
<b>CDF:</b> Comprehensive Development Framework	<b>FTA:</b> free trade area
<b>CEECs:</b> Central and Eastern European countries	<b>G5:</b> Group of Five
<b>CFIUS:</b> Committee on Foreign Investment in the United States	<b>G7:</b> Group of Seven
<b>CIS:</b> Commonwealth of Independent States	<b>G8:</b> Group of Eight
<b>CMEA:</b> Council for Mutual Economic Assistance	<b>G10:</b> Group of 10
<b>COCOM:</b> Coordinating Committee	<b>G20:</b> Group of 20
<b>CPE:</b> centrally planned economy	<b>G24:</b> Group of 24
<b>CRTA:</b> Committee on Regional Trade Agreements	<b>G77:</b> Group of 77
<b>CU:</b> customs union	<b>GAB:</b> General Arrangements to Borrow
<b>CUSFTA:</b> Canada–U.S. Free Trade Agreement	<b>GATS:</b> General Agreement on Trade in Services
<b>CVD:</b> countervailing duty	<b>GATT:</b> General Agreement on Tariffs and Trade
<b>DC:</b> developed country	<b>GDP:</b> gross domestic product
<b>DISC:</b> Domestic International Sales Corporation	<b>GNI:</b> gross national income
<b>EBRD:</b> European Bank for Reconstruction and Development	<b>GNP:</b> gross national product
<b>EC:</b> European Community	<b>GSP:</b> generalized system of preferences
<b>ECB:</b> European Central Bank	<b>HDI:</b> human development index
	<b>HIPC:</b> heavily indebted poor countries
	<b>HIV:</b> human immunodeficiency virus
	<b>IBRD:</b> International Bank for Reconstruction and Development (World Bank)
	<b>ICSID:</b> International Centre for Settlement of Investment Disputes

- IDA:** International Development Association  
**IDB:** Inter-American Development Bank  
**IFC:** International Finance Corporation  
**IMF:** International Monetary Fund  
**IO:** international organization  
**IPE:** international political economy  
**IR:** international relations  
**ISI:** import substitution industrialization  
**ITO:** International Trade Organization  
**KIEO:** keystone international economic organization  
**LAFTA:** Latin American Free Trade Association  
**LDC:** less-developed country  
**LIC:** low-income country  
**LLDC:** least developed country  
**M&As:** mergers and acquisitions  
**MAI:** Multilateral Agreement on Investment  
**MDRI:** Multilateral Debt Relief Initiative  
**Mercosur:** Southern Common Market Treaty  
**MFA:** Multi-Fiber Arrangement  
**MFN:** most favored nation  
**MIC:** middle-income country  
**MIGA:** Multilateral Investment Guarantee Agency  
**MNC:** multinational corporation  
**MTN:** multilateral trade negotiation  
**NAFTA:** North American Free Trade Agreement  
**NATO:** North Atlantic Treaty Organization  
**NEM:** New Economic Mechanism  
**NEP:** National Energy Program  
**NGO:** nongovernmental organization  
**NIE:** newly industrializing economy  
**NIEO:** New International Economic Order  
**NTB:** nontariff barrier  
**ODA:** official development assistance  
**ODF:** official development finance  
**OECD:** Organization for Economic Cooperation and Development  
**OEEC:** Organization for European Economic Cooperation  
**OPEC:** Organization of Petroleum Exporting Countries  
**PPP:** purchasing power parity  
**PRC:** People's Republic of China  
**R&D:** research and development  
**RTA:** regional trade agreement  
**RTAA:** Reciprocal Trade Agreements Act  
**SAL:** structural adjustment loan  
**SAP:** structural adjustment program  
**SDRs:** special drawing rights  
**SDT:** special and differential treatment  
**SEA:** Single European Act  
**STABEX:** Stabilization of Export Earnings  
**TAN:** transnational advocacy network  
**TFN:** transnational feminist network  
**TOA:** Treaty of Asunción  
**TRIMs:** Trade-Related Investment Measures  
**TRIPs:** Trade-Related Intellectual Property Rights  
**UN:** United Nations  
**UNCTAD:** United Nations Conference on Trade and Development  
**UNCTC:** United Nations Center on Transnational Corporations  
**UNDP:** United Nations Development Program  
**USTR:** U.S. Trade Representative  
**WEF:** World Economic Forum  
**WTO:** World Trade Organization

# BRIEF CONTENTS

*Preface* xi

*Acronyms and Abbreviations* xvii

## **PART 1 Introduction and Overview 1**

**Chapter 1** Introduction 2

**Chapter 2** Managing the Global Economy Since World War II:  
The Institutional Framework 17

## **PART 2 Theoretical Perspectives 51**

**Chapter 3** The Realist Perspective 55

**Chapter 4** The Liberal Perspective 77

**Chapter 5** Critical Perspectives 103

## **PART 3 The Issue Areas 130**

**Chapter 6** International Monetary Relations 131

**Chapter 7** Global Trade Relations 167

**Chapter 8** Regionalism and the Global Trade Regime 209

**Chapter 9** Multinational Corporations and Global  
Production 250

**Chapter 10** International Development 296

**Chapter 11** Foreign Debt and Financial Crises 341

## **PART 4 Concluding Comments 382**

**Chapter 12** Current Trends in the Global Political  
Economy 383

*Glossary* 409

*Index* 419



# CONTENTS

*Preface* xi

*Acronyms and Abbreviations* xvii

## **Part 1 Introduction and Overview 1**

### **Chapter 1 Introduction 2**

What is International Political Economy? 2

The IPE Theoretical Perspectives 4

Purposes and Themes of this Book 5

Focus of this Book 11

*Questions* 13

*Further Reading* 13

*Notes* 14

### **Chapter 2 Managing the Global Economy Since World War II: The Institutional Framework 17**

Global Economic Relations Before World War II 18

The Functions of the IMF, World Bank, and GATT 22

International Economic Organizations  
and the United Nations 23

Postwar Economic Institutions and the North 23

Postwar Economic Institutions and the South 31

Postwar Economic Institutions and the Centrally Planned  
Economies 38

Nonstate Actors 42

Conclusion 43

*Questions* 44

*Further Reading* 45

*Notes* 45

## **Part 2 Theoretical Perspectives 51**

### **Chapter 3 The Realist Perspective 55**

Basic Tenets of the Realist Perspective 56

The Mercantilists 58

Realism and the Industrial Revolution 58

Realism in the Interwar Period 59

Realism after World War II 60

The Revival of Realist IPE	60
Hegemonic Stability Theory and Debates over U.S. Hegemony	61
Realism and North–South Relations	68
Critique of the Realist Perspective	69
<i>Questions</i>	70
<i>Further Reading</i>	71
<i>Notes</i>	71

## **Chapter 4 The Liberal Perspective 77**

Basic Tenets of the Liberal Perspective	77
Orthodox Liberalism	80
The Influence of John Maynard Keynes	81
Liberalism in the Postwar Period	82
A Return to Orthodox Liberalism	82
Liberalism and Institutions	84
Liberalism, Global Governance, and Regimes	89
Liberalism and Domestic–International Interactions	90
Liberalism and North–South Relations	92
Critique of the Liberal Perspective	94
<i>Questions</i>	96
<i>Further Reading</i>	96
<i>Notes</i>	97

## **Chapter 5 Critical Perspectives 103**

Basic Tenets of Historical Materialism	103
Early Forms of Historical Materialism	106
Whither the Historical Materialist Perspective?	110
Constructivism	114
Feminism	116
Environmentalism	118
Critique of the Critical Perspectives	121
<i>Questions</i>	123
<i>Further Reading</i>	123
<i>Notes</i>	124

## **Part 3 The Issue Areas 130**

### **Chapter 6 International Monetary Relations 131**

The Balance of Payments	132
Government Response to a Balance-of-Payments Deficit	134

The Functions and Valuation of Money	138
International Monetary Relations Before Bretton Woods	138
The Formation of the Bretton Woods Monetary Regime	140
The International Monetary Fund	141
The Functioning of the Bretton Woods Monetary Regime	142
The Regime of Floating (or Flexible) Exchange Rates	148
Alternatives to the Current Monetary Regime	150
European Monetary Relations	151
What is the Likely Future of the U.S. Dollar as the Key Currency?	153
Sovereign Wealth Funds	157
Considering IPE Theory and Practice	158
Questions	160
Further Reading	161
Notes	162

## **Chapter 7 Global Trade Relations 167**

Trade Theory	168
Global Trade Relations Before World War II	172
GATT and the Postwar Global Trade Regime	173
Principles of the Global Trade Regime	174
Formation of the WTO	180
The WTO and the Global Trade Regime	184
The South and Global Trade Issues	185
The Transition Economies and Global Trade Relations	190
Civil Society and Global Trade Relations	195
Trade and the Environment	196
Considering IPE Theory and Practice	199
Questions	201
Further Reading	201
Notes	202

## **Chapter 8 Regionalism and the Global Trade Regime 209**

Regionalism and the IPE Theoretical Perspectives	211
Regionalism and Globalization	212
A Historical Overview of RTAs	213
Explanations for the Rise of Regional Integration	214

The GATT/WTO and RTAs	218
The European Union	222
The North American Free Trade Agreement	229
Mercosur	234
East Asian Regionalism	236
Considering IPE Theory and Practice	239
<i>Questions</i>	241
<i>Further Reading</i>	242
<i>Notes</i>	242

## **Chapter 9 Multinational Corporations and Global Production 250**

Definitions and Terminology	251
Why do Firms Become MNCs?	252
The Historical Development of FDI	254
MNC–Host Country Relations: Determinants and Effects of FDI	262
Host Country Policies Toward MNCs	265
MNC–Home Country Relations	269
A Regime for FDI: What is to be Regulated?	276
Bilateral Investment Treaties	277
United Nations	278
Regional Approaches: The EU and NAFTA	279
The GATT/WTO to the OECD and Back to the WTO	281
Private Actors	283
Considering IPE Theory and Practice	284
<i>Questions</i>	287
<i>Further Reading</i>	287
<i>Notes</i>	288

## **Chapter 10 International Development 296**

IPE Perspectives and North–South Relations	298
Official Development Assistance	299
The World Bank Group	303
LDC Development Strategies	308
Import Substitution Industrialization	309
Socialist Development Strategies	312
Export-Led Growth	313
The Revival of Orthodox Liberalism	319
Another Shift in Development Strategy?	324



Considering IPE Theory and Practice 330

Questions 332

Further Reading 333

Notes 334

## **Chapter 11 Foreign Debt and Financial Crises 341**

What is a Debt Crisis? 341

The Origins of the 1980s Debt Crisis 343

The Foreign Debt Regime 348

Strategies to Deal with the 1980s Debt Crisis 355

Transition Economies and Foreign Debt 363

The IMF, World Bank, and the Debt Crisis 365

The 1990s Financial Crisis 367

The Global Financial Crisis—2008 to ? 371

Considering IPE Theory and Practice 373

Questions 375

Further Reading 375

Notes 376

## **Part 4 Concluding Comments 382**

### **Chapter 12 Current Trends in the Global Political Economy 383**

Globalization 383

North–North Relations 394

North–South Relations 400

A Final Word on IPE Theory and Practice 404

Notes 405

Glossary 409

Index 419