"The Politics of Global Markets:

Mental Models of Trade and Finance in an Unequal World"

Leslie Elliott Armijo and John Echeverri-Gent

Abstract

As privileged citizens of a consumer society, Americans' attitudes toward vast disparities in the conditions of life in wealthy as compared to poor countries reflect their implicit beliefs about the sources of global inequality. We contrast contending interpretations of eight international policy arenas, four in trade (WTO procedures, intellectual property protections, "trade-related" foreign direct investment, and agricultural trade) and four in finance (capital account liberalization, trade in financial services, the East Asian crisis, and the key currency role of the US dollar). Within each policy arena *economic liberals* unerringly locate decentralized, impersonal market mechanisms. Observing the same empirical reality, *liberal institutionalists* identify numerous international public goods and ample opportunities for transnational and interstate win-win cooperation. *Economic realists*, however, perceive zero-sum contests among unequal and self-interested players and the competitive accumulation of relative gains. Most American international economic policymakers subscribe to economic liberal assumptions. Our national perceptions of interstate inequality would be enriched by a judicious consideration of alternative mental models of this complex reality.

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"The Politics of Global Markets: Mental Models of Trade and Finance in an Unequal World"[1]

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The globalization of markets for trade and finance has had momentous consequences for people and countries around the world. These developments promise to shape the futures of peoples for years to come. Some analysts contend that by promoting growth, the globalization of trade and finance have improved the livelihood of people around the world. Others argue that the process of globalization is has disproportionately benefited people in the wealthiest countries. What is not in dispute is that the process of globalization has occurred in a context of inequality among countries and peoples. This paper examines *competing interpretations* of how interstate inequalities have affected the process of economic globalization and in turn have been shaped by this process.

These are highly contested issues, not only because the complexity of the processes involved but also because scholars studying these issues employ different ontologies and causal theories to understand them. In light of these disputed beliefs, we elect to focus our present inquiry less on uncovering essential truths than on sketching alternative mental models which scholars have devised to interpret global trade and finance. Comparing and contrasting these alternative analytical perspectives enables us sort out their claims and better evaluate their strengths and weaknesses. Ultimately, we argue that by synthesizing the various insights that these perspectives generate, we can better explain the complex relationships between globalization and inequality.

Most analysis of globalization falls into one of three mental models. *Economic liberalism*, with roots in classical, neoclassical and neoliberal economics, asserts that international economic relations are fundamentally market-driven. *Liberal institutionalism*, drawing from game-theoretical perspectives, believes that global economic governance is founded on the cooperation of nations to achieve mutually beneficial gains. *Economic realists*, many of whom are influenced by the realist tradition in international relations, find power and conflict over relative gains to be central to globalization. In their perspective, global governance reflects and reproduces the asymmetries in resources and power that prevail in their world view. Our elaboration recombines previous frameworks to reflect those we find most influential in contemporary policy debates. For example, Robert Gilpin (1987:25-64) influentially proposed three "ideologies of political economy": the "liberal," "nationalist," and "Marxist" perspectives. Our alternative categorization, shown in Table 1, subdivides Gilpin's first category, as we find consequential differences between economic and political liberals. Moreover, we note that Gilpin's economic nationalists and his Marxists both envision power and coercion as essential to international economics, causing us to term both views "realist." And capitalist firms' influences on global governance almost always funnel through their home governments first. For some purposes we shall highlight the views of "social justice realists," who partially overlap Gilpin's Marxists.

Table 1--Mental Models of the International Political Economy

	Liberals		**Realists**	
Gilpin 1987	Liberals		Economic Nationalists	Marxists
Armijo & Echeverri-Gent 2005	Economic Liberals	Liberal Institu-tionalists	Economic Realists (includes S.J. Realists)	

The argument of this essay is that while these analytical frameworks each offer valuable insights, they structure their inquiries to highlight different aspects of global economic governance. In particular, we contend that economic liberals, while providing valuable insights about market dynamics at any particular point in time, offer fewer insights about the evolution of global economic governance. This is because they disembed markets from the political processes that reconstitute economic governance over time. Liberal institutionalists and economic realists provide valuable insights in this regard, and synthesizing their analyses is essential to striking a proper analytical balance between opportunities and constraints presented by the asymmetries of power embedded in economic, social, and institutional structures.

We begin our essay by outlining the foundational premises of the three mental models of the international political economy. We pay special attention to their contrasting insights into the causes and consequences of international inequality. Subsequently, we investigate the implications of the three frameworks by observing how analysts in each tradition approach four contentious issues in the governance of international trade and another four in the governance of global finance. After comparing the alternative visions of trade and finance, we close with suggestions as to how their frameworks might be most fruitfully synthesized.

Economic Liberalism and the International Economy

Economic liberalism is a mental model originating in the work of Adam Smith and the classical economists that followed him. The perspective was later shaped by the marginalist revolution at the end of the nineteenth century and what might be called the neoliberal movement beginning in the 1970s. The basic tenets of economic liberalism are that the self-interested pursuit of interests in a market simultaneously maximizes individual and societal welfare. Markets promote social welfare by maximizing the efficient allocation of resources and – in more recent renditions – promoting technological change. Economic liberals view markets and politics as distinct means of allocating resources. In contrast to markets, politics is inefficient either because state authorities are less capable than markets of processing the information that is required for effective decisions or because powerful interests dominate and distort the political process to advance their interests at the expense of society at large. Consequently, economic liberals call for minimizing state economic intervention. Many allocate to the state a minimalist role in enforcing property rights or maintaining law and order more generally. Some extend the minimalist role to the provision of public goods (e.g. infrastructure) and intervention to resolve problems of market failures (such as public education, public health, and limited forms of standard setting and regulation). In all cases, economic liberals are skeptical of the efficacy of state intervention, and they argue that it should be restricted to the bare minimum. Economic liberals give priority to efficiency and economic growth over equity. Their concern for equality is primarily in terms of due legal process for everyone. To the extent they are concerned with equity, they apply Pareto optimality as the normative criteria.

Economic liberalism's approach to international trade is grounded in classical economists' rejection of mercantilism at the end of the 18th century. In his *Wealth of Nations*, Adam Smith (1776) touted the benefits of free trade by arguing that specialization in the market would work to people's mutual advantage by increasing productivity and allocative efficiency even when the division of labor transcended national boundaries. David Ricardo (1817) systematized Smith's ideas regarding trade with his theory of comparative advantage. Bertil Ohlin (1933), building on the work of his teacher Eli Heckscher, advanced the theory of comparative advantage by arguing that a country's comparative advantage derives from resource abundance; therefore, countries with abundant capital should concentrate on producing capital-intensive goods and then trade for labor-intensive goods from countries with abundant labor. Wolfgang Stolper and Paul Samuelson (1941) built on this theory by investigating the distributive consequences of economic protection. They observed that reducing protection benefits the owners of abundant factors of production in a country and increasing protection increased the relative welfare of owners of scarce factors. The cumulative implications are that free trade benefits all countries, and it is likely to reduce poverty in developing countries by increasing the income to the poor who as laborers own the most abundant resource.

Interestingly, though classical economists were enthusiastic advocates of international trade, they were wary of international financial markets. While appreciating some of the positive impacts of the internationalization of capital markets, classical

economists such as Adam Smith, David Ricardo, and later John Stuart Mill expressed concerns that the information asymmetries involved created higher transaction costs and promoted unhealthy speculation which in turn produced greater financial volatility and international tensions potentially leading to violent conflicts between nations. John Maynard Keynes, writing in the interwar period, was even more concerned about international capital flows. He highlighted the destabilizing consequences of speculative capital movements, and called for controls on international capital flows (Keynes 1980, vol. 25:149, vol. 9:292, vol. 6:288ff.). It was, in part, due to Keynes concerns that international capital flows under the Bretton Woods regime in the post-World War II era were highly regulated (Helleiner 1994).

The decades following World War II saw development economics challenge many of the precepts of economic liberalism when applied to developing countries. With respect to trade, development economists contended that developing countries were different from developed countries in that most were overwhelmingly engaged in primary commodity production with unlimited supplies of labor, but were faced with global markets that would not allow for rapid growth in their export earnings. They argued for a strategy of import substitution industrialization (ISI) in which the state played a catalytic role in promoting economic development by directing investment to strategic sectors and protecting infant industries. The exceptional nature of economic development in developing countries was so widely accepted that it was recognized in article XVIII of the General Agreement on Tariffs and Trade (GATT), negotiated in 1947.

It was only in the 1970s that economic liberalism reasserted its primacy. Studies of ISI policies gave rise to the concepts of rent-seeking and directly unproductive profit-seeking that highlighted the inefficiencies of the regime (Krueger 1974; Bhagwati 1982). The operationalization of economic concepts like effective protection, shadow pricing, and domestic resource costs enabled economists to better measure the costs of the ISI strategy (Krueger, 1997). The experience of the East Asian economic miracles in Taiwan, South Korea, Singapore and Hong Kong was interpreted to demonstrate the viability of an export-led growth strategy. Theoretical innovation, in the context of the East Asian experience, empowered liberal economists to better conceptualize the dynamic consequences of global trade integration resulting from technology transfer, curtailed rent-seeking, increased competition and the diffusion of ideas (Krueger 1997). By the 1980's it was clear that developing countries were able to industrialize through export-led growth. Liberal economists effectively rejected the premise of "export pessimism" and called into question the case for differential treatment of developing countries (Krueger, 1997; but also Hirschman, 1981).

By the 1970s new thinking had banished these concerns and paved the way for financial liberalization in national and international markets. The "efficient market hypothesis" (Fama 1970) posited that market prices on financial markets were "accurate signals for capital allocation" because they fully and instantly reflect all relevant information. Markets were able to achieve this state of efficiency because the arbitrage of traders drove prices to an equilibrium that reflected their value. Even if traders responded to new information in divergent manners, market prices would change in

unpredictable ways, or follow a "random walk" (Merton 1975), because any consistent pattern of change would become observable to traders who would then profit from it. These arguments highlighting the efficiency of financial markets were complemented by new developments in macroeconomics. The "new classical economics" [2] criticized Keynesian justifications for state intervention to manage macroeconomic demand (Lucas 1972, 1976; Brunner and Meltzer 1993). These scholars charged that Keynesian economists underestimated the rationality of economic agents by neglecting the importance of their "rational expectations" about the future in their economic decisions. They contended that factoring in these rational expectations rendered government interventions ineffective. Together, these new developments in economic thinking justified an elevated role for markets as sources of allocative efficiency and a greatly restricted role for the state. State intervention was justified only in the context of a very limited conceptualization of market failure and even then only with a demonstration that state intervention in an economy of rational agents can actually lead to improvements.

Since the 1980s, economic liberals have levied powerful arguments for financial liberalization and international financial integration. Financial liberalization and international financial liberalization are said to increase rewards to investors and encourage higher rates of savings. Increased competition will reduce the cost of finance, and improve allocative efficiency within domestic economies and across national boundaries, directing investment to capital scarce economies once they have achieved the proper institutional development. International financial integration promotes technological change by facilitating the spread of new technologies. By enhancing the threat of exit, international financial integration would discipline governments to pursue responsible policies. Consequently, it should reduce the incidence of serious financial crises.

Theoretical Challenges to the Assumptions of Economic Liberals

At a time when a majority of policy-makers have come to accept the liberal economists claim that markets provide the most efficient means of economic coordination, social scientists have become increasingly skeptical of the contention that markets alone will produce an optimally efficient equilibrium. Many economists argue that imperfect and asymmetric information produce inefficient market outcomes.[3] Game theorists now believe that strategic interaction usually produces multiple equilibria. This suggests the contingency of economic efficiency since different equilibria are likely to be associated with different levels of efficiency. One of the most exciting new fields in economic research is experimental economics. Work in this innovative field has found that economic decision-makers often do not make decisions on the basis of the rational, self-interested model that is the foundation of conventional microeconomics. Different decision-making strategies produce different market levels with varying degrees of social efficiency. Finally, economic historians, such as Douglass North (1990), have highlighted the role of the "mental maps" in influencing economic actors and ultimately market outcomes (see also Mantzavinos, North, and Shariq 2004).

Economic sociologists and historians contest the liberal assertion that markets typically are apolitical and efficient. On the contrary, they argue that markets are embedded in social networks, norms, and institutions that are politically constituted. Transaction costs can be minimized when transactions are embedded in social networks whose strong linkages promote trust, enhance the dissemination of information and reputations, and create mechanisms to sanction opportunists (Granovetter 1985; Powell 1990; Uzzi 1996; Stuart 1998, 1999). Social norms promote economic cooperation by serving as informal constraints and by creating focal points (North 1990; Grief 1994). "Mental models" promote patterns of economic coordination and cognitive learning that shape the acquisition of skills and the nature of institutions in a way that structures the course of economic development. In other cases, coordination can only be achieved when state or non-state third party actors provide enforcement (Milgrom, North, and Weingast 1990; Grief 1992, 1993; Grief, Milgrom, and Weingast 1994; Grief 2002). Over the long-run, variation in the social networks that underpin markets causes different trajectories in the development of market institutions and economic performance (Hamilton and Biggart 1988; Gerlach 1992; Fligstein and Freeland 1995).

These critics of economic liberalism have a very different view of the relationship between markets and states. Economic liberals argue that markets and states are distinct entities, and though they vary on the criteria for proper state intervention, they all see markets – at the national or international level – as preferable to state intervention or other forms of governance unless the markets somehow fail (Nelson 2003). Economic sociologists and many economic historians view markets and states as inextricably intermingled. In their view it is impossible to prefer markets to states because the institutions upon which markets are founded are created by states. The operation of markets and their development over time is shaped by these institutions as well as the social networks that develop around them. In turn, the pattern of market transactions has political consequences. In allocating resources markets also allocate power, and this power affects states. In these critics view, markets, states, and social relations are mutually constitutive. It is impossible to understand economic governance without understanding how the distinctive configurations of market, state, and society shape the functioning of the economy. This is true at the international as well as the national level. Political scientists examine global economic governance from two analytically distinct perspectives: liberal institutionalism and economic realism. We discuss each in turn. Then we apply each perspective to analyzing the development of global trade and finance.

Liberal Institutionalism and Global Economic Governance

The liberal institutionalist perspective in international relations theory can be traced back to the vision of eighteenth century *philosophes* who advocated world civilization, global citizenship, free trade, and the mutual interests of states while denouncing military alliances and conflict. Equally it draws upon the "liberalism of progress" articulated by Adam Smith and James Madison (Keohane 2001: 8). Woodrow Wilson contributed a focus on international institutions as a means to achieve free trade and peace (Baldwin 1993). In the early 1980s, liberal institutionalists began to focus on "international regimes" or "sets of implicit or explicit principles, norms, rules and decision-making procedures around which actor expectations converge in a given area of international relations" (Krasner 1982). They highlighted the ways in which formal international organizations whose membership is usually limited to sovereign states coordinate the actions of states to provide Pareto-enhancing, collective goods (e.g. Keohane 1984; Hasenclever, Mayer, and Rittberger 1997).

Liberal institutionalists view globalization as a process through which multi-continental "networks of interdependence" become increasingly "thick" (Keohane and Nye 1977, 2000:2,7; Held, McGrew, Goldblatt, and Perraton 1999; Slaughter 2004). New forms of interconnectedness redistribute authority from nation-states to supra-national, sub-national, and private sector actors (Rosenau and Czempiel, eds. 1992; Held et al. 1999; Florini 2003; Price 2003). Liberal institutionalists call for the rational design of institutions in response to these changes. (Koremos, Lipson, and Snidal, eds. 2001; Kaul, Grunberg, and Stern, eds. 1999) Advocates of liberal institutionalism define governance as, "The processes and institutions, both formal and informal, that guide and restrain the collective activities of a group" (Keohane and Nye 2000:12). In one influential formulation, international governance is described as operating through four levels (Keohane and Nye 2003:394-95).[4] Liberal institutionalists also elaborate analyses of the rational design of institutions. Though many liberal institutionalists are supportive of more equitable participation in international institutions, they are concerned that it will create two problems for global governance. First, increased participation will make it more difficult to resolve the collective action problems characterizing global governance which were previously resolved by "clubs" with limited membership. Second, since "cosmopolitan democracy" is only a distant hope, liberal institutionalists are concerned that increased participation will create a crisis of legitimacy. They respond to this possibility by focusing their attention on the development of mechanisms of accountability that they suggest will preempt legitimacy crises by limiting abuses of power.

In sum, liberal institutionalists focus their analysis primarily on international institutions and transnational networks. Like the economic liberals they are aware of the possibility that institutions can be detrimental to social welfare. However, they are more optimistic that the "governance dilemma" – posed by the need for institutional intervention to create public goods and the simultaneous need to restrict unproductive interventions – can be resolved in favor of the latter (Keohane 2001). Indeed, liberal institutionalists generally regard institutions as producing public goods that benefit all

members of society. While they acknowledge global inequalities and even the possibility of a "participation gap," their game theoretic analytical premises incite them to concentrate their analysis on: how states overcome collective action problems to create international institutions; how international institutions are designed to generate global benefits, and how international institutions can overcome legitimacy problems that arise because of a lack of global democracy. Liberal institutionalists differ from realists who reduce international relations to the exercise of power. Indeed, much of their early work highlighted the continuing importance of international institutions during the 1970s and 1980s at a time when the realist framework – in particular, hegemonic stability theory – predicted their decline (Keohane 1984; Krasner 1983). While they acknowledge that institutions institutionalize bias in favor of some groups (Keohane 2001), the influence of its premises of actor rationality, actor interchangeability, and voluntary cooperation has diverted liberal institutionalists from analyzing the impact of power disparities on the nature of institutions and the distribution of their benefits.

Economic Realists on Global Economic Governance

Many economic realists are influenced by the ontology of the realist tradition in international relations which conceptualizes the global environment as perilous anarchy composed of states that ruthlessly pursue their self-interest. In these circumstances, responsible leaders must concern themselves with national defense and attend constantly to the relative capabilities (military size and firepower, population, wealth, natural resources) of states. Kenneth Waltz (1979) saw no getting around the "self-help" nature of world politics, which would lead rational policy makers to seek to balance and contain potential rivals. John J. Mearsheimer goes even further, explicitly arguing that the only reliable defense against an emerging potential rival is preemptive offense. Economic realists have understood trade—and its enforced absence, economic sanctions—as classic instruments of statecraft, propounded (or feared) foreign direct investment as an aid to neo-imperialism, and viewed currency areas as regions of potential hegemonic coercion (Krasner 1985; Baldwin 1985; Craig and George 1995:63-74; Kirshner 1997).

This ontology situates power at the center of the realist analysis (cf. Walt 2002). International organizations and regimes exist only because powerful states or inter-state coalitions permit them. Power is fungible, and changes in economic resources affect state's fundamental security concerns. Security considerations always trump gains from economic cooperation. States focus on relative, not absolute gains, and powerful states refuse to close deals that that skew relative gains against them (Grieco 1990). Stephen Krasner (1991) contends that international cooperation is impeded by the fact that is it often characterized, not by Nash equilibria, but by Pareto frontiers and conflicts over which point on the frontier should be selected. In other words, where liberal institutionalists see a coordination game, realists see a "Battle of the Sexes" (Mattli and Buthe 2003). The winner of such conflicts often depends on who controls the agenda, who has the most power resources, and whose domestic institutions provide the state with the capabilities to win the conflict.

Contrary to liberal institutionalists who assert that states join international regimes to obtain gains, realists such as Lloyd Gruber (2000) demonstrate that by removing the *status quo* from the choice set of weaker states, powerful states compel them to accept agreements that leave them worse off because the alternative of staying outside the agreement is even worse. In effect, powerful states can engage in "redistributive cooperation" where they shift the costs of their policies onto other states (Oatley and Nabors 1998). States with larger markets have greater leverage than those with smaller markets since offers to open their markets create greater incentives and threats to close them generate more powerful sanctions (Jackson 1969; Krasner 1976; Fisher, Ury, and Patton 1991). Powerful states can also engage in "forum shopping" by: 1) shifting the institutional arena of negotiations from less to more favorable venues; 2) reconstituting an existing negotiating arena to be more favorable; or 3) creating a new, more favorable institution (Steinberg 2002). When multilateral negotiations provide unsatisfactory outcomes, powerful countries often attempt to reach more favorable arrangements by initiating bilateral negotiations that magnify their bargaining power over smaller countries.

Though traditional realist theorists of international relations have understood states as the only actors, many economic realists assign an important role to non-state actors, particularly private, multinational business firms (Strange 1986, 1996; Verdun 2000). Claire Cutler (1999, also Cutler, Haufler, and Porter 1999) contends that the state-centric focus of most international relations theorists ignores the role that private actors, especially powerful corporations headquartered in developed countries, have in initiating the rules that structure global economic governance. William Tabb (2004) elaborates a "concentric circle" explanation for the development of global economic governance in which transnational corporations initiate rules for global governance and secure the sponsorship of powerful nations such as the United States, who in turn form alliances with a limited number of other developed countries, and who then together use their market share to convince other countries to accept the rules.

In conclusion, realists focus on the exercise of power as being fundamentally constitutive of global economic governance. Unlike liberal institutionalists who contend that international institutions have a positive impact by providing public goods, realists see global institutions as instruments for powerful countries to pursue their interests. Although realist analysis has traditionally centered on states, an increasing number of economic realists have begun to include private sectors actors, especially multinational corporations. Among those scholars who see power as central to international economic governance there is a group whose work is motivated by their normative disapproval for inequality. Often drawing from the corpus of neo-Marxists, dependency theorists, and neo-Gramscians, these analysts are fundamentally concerned about the inequities that arise between developed and developing countries. We term these analysts *social justice realists* (for example, Tabb 2004; Kitching 2003; Robinson 2004; Wade 2003, 2004). In the remainder of this essay, we focus principally on this subgroup of economic realists whose objective assessment of the international political economy often recalls the Hobbesian world of the "realists," yet who retain a strong normative and policy-driven

commitment to greater equality. Their perspective has been especially prominent in scholarly analyses of developing countries in the global economy.

Global Economic Governance and Developing Countries

The three analytical frameworks have different mental models of global economic governance and interstate inequality, as summarized in Table 2 below. For *economic liberals*, markets are the organizing principal of the global economy. Multinational firms and global production networks are – and should be – the key actors in the international economy. States—and politics more generally—mainly inject inefficiency into global markets. Global economic integration produces mutual gains for all, developed and developing countries alike. When international organizations confine themselves to their assigned task of promoting open economies with pro-market regulatory frameworks—as was mostly the case under the postwar Bretton Woods regime anchored by the International Monetary Fund, World Bank, and the General Agreement on Tariffs and Trade—then they provide a clear public good. Nonetheless, governance through the intervention of international organizations should be kept to a minimum, except in carefully circumscribed venues, preferably subject to management by neoliberal technocrats. Governance through international institutions must be restricted because they are vulnerable to political influence and as public choice analysts suggest, they are inclined towards self-aggrandizement (Vaubel 1986; Vaubel and Willett 1991; but also Frey 1996; and Willett 2002). Even organizations like the International Monetary Fund, whose officials are almost uniformly economic liberals, are vulnerable, and economic liberals are critical of IMF interventions for creating moral hazard and being excessively generous (Edwards 1998; Brunner and Meltzer 1993).

Economic liberals attribute international disparities largely to differences in national economic policy. The poorest countries are those whose economic policies are characterized by pervasive state intervention and consequently high levels of inefficiency and rent-seeking. Protectionism is also a cause of backwardness, and economic liberals point to the export-led growth of East Asian countries as cogent justification for global economic integration. Firms in the private sector should be left free to compete. Superior products should be the only relevant power resource in the international economy.

These views have implications for the economic liberals' approach to complaints by developing countries of unequal access to the institutions of global economic governance. While economic liberals encourage developing countries to participate in global markets, they are wary of the consequences of their participation in international institutions. Economic liberals fear that developing country participation will generally politicize the functioning of these organizations and consequently pressure them to intervene in the global economy more frequently. In light of the developing countries demand for a New International Economic Order in the 1970s and 1980s, economic liberals feel justified in their concern that developing countries will call for a broader role for the allocation of resources and determination of prices by authorities at the international and domestic levels. They also resist the developing countries' call for

special and differential treatment since this creates an unwarranted delay in their access to the benefits of international economic integration. Instead of attempting to use international organizations to advance their interests, the best strategy for developing countries is to liberalize their economies and integrate with global markets. Implementing market-friendly policies will maximize growth and enhance the power and prestige of developing countries.

Liberal institutionalists, in contrast to economic liberals, conceive of an international *political* economy. Markets cannot function independent of the institutional context and shared understandings, formal and informal, within which they are embedded. Both states and firms are key actors. Moreover, formal international organizations, as well as the multiple public and private participants in decentralized transnational networks, also have independent influence on outcomes. The Bretton Woods international economic governance institutions and networks, underpinned and guaranteed by the comparatively benign leadership of the United States, provided the necessary stability and predictability for dramatic increases in global growth, which constituted a public, or at least a collective, good.

How does one succeed in the global economy? A combination of the"hard" (military and economic) and "soft" (reputational, ideological) power of states determines relative national influence in global economic governance. In fact, liberal institutionalists demonstrate great sensitivity to the role of ideas and legitimacy in shaping governance (Keohane, 2001; Goldstein and Keohane 1993; Goldstein 1993). Yet most liberal institutionalists simultaneously assert that success in global markets remains primarily a function of the relative attractiveness of a country's products. Liberal institutionalists, in other words, recognize that countries wield unequal influence in international governance regimes. Nonetheless, these analysts usually view international negotiations to establish international institutions and to create rules for global markets as essentially fair and without politically-induced bias.

As political scientists whose research focuses primarily on international institutions, liberal institutionalists have less to say on the sources of international inequalities. Rather their analysis begins with the existence of inequalities, and they propose that greater inclusion of developing countries in international organizations will ameliorate inequality. They are, moreover, hopeful that participation is gradually being expanded. Peter Haas (2004:1-2), for example, discerns "a political project or vision of incremental multilateralism, as more parties become part of a growing project of globalization over which each has an interest and a say." John Gerard Ruggie (2003:95) observes that "voluntary initiatives involving civil society and the global business community to promote corporate social responsibility" may extend similar protections to poor countries. Randall Germain (2004) is heartened that developing country governments are being invited to join important global fora, while Ann Florini (2003) asserts that greater transparency and the free flow of information empowers ordinary citizens to hold international organizations accountable.

Yet other liberal institutionalists are uneasy about greater inclusion for developing countries in international governance regimes, which may create two problems. First, increased participation will make it more difficult to resolve the collective action problems characterizing global governance which were previously resolved by "clubs" with limited membership (Keohane and Nye 2002). Second, since "cosmopolitan democracy" is only a distant hope, liberal institutionalists are concerned that increased participation will create a crisis of legitimacy. Leading liberal institutionalists consequently also recommend the development of mechanisms of accountability that they suggest will preempt legitimacy crises by limiting abuses of power (Grant and Keohane 2005).

In a manner reminiscent of the proponents of pluralist democratic analysis in the 1960s, most liberal institutionalists do not provide theoretical criteria to differentiate among the power and influence of various non-governmental actors, a category in which they include multinational corporations as well as a range of public interest and civil society groups. In sum, liberal institutionalists contend that the best course for developing country governments, especially newly democratic ones sincerely concerned for the economic well-being of their constituents, is be a cooperative and patient participant in international organizations and partake in the mutual benefits that they provide.

Table 2 Global Economic Governance and Developing Countries

	Economic Liberals	**Liberal Institutionalists**	**"Social Justice" Economic Realists**
Key Organizing Principle in International Economy	Markets	Institutions	Power
Key Actors in International Economy	Firms	States Firms International orgs. Transnatl networks	States Firms
Sources of Interstate Inequality	Poor policies Rent-seeking	Exogenous to model	Dominance by core capitalist states
Sources of International Economic Success	Good products	Good products Good citizenship	Control of agenda & rulemaking in global governance
Recommendations for Poor Countries	Liberalize Work hard	Cooperate Be patient	Bargain hard Developmental state?

Economic realists are much more dubious about the "public," or even "collective" nature of the benefits from the postwar trade and financial agreements negotiated by the victors in the Second World War. Like liberal institutionalists, many economic realists analyze global economic governance as a multi-level process. Unlike liberal institutionalists, they view these different modes of governance as over-determining the domination of the powerful rather than as pluralistic channels promoting equitable accommodation. For many social justice realists, multinational corporations are the most powerful nongovernmental organizations. They work "hand in glove" with powerful

states to perpetuate their mutual domination. Where liberal institutionalists see the development of governance through voluntary cooperation, economic realists see implicit, if not explicit, coercion resulting from the developed countries' control over the agenda, market power, structuring of international institutions, and framing of global norms (Gruber 2001; Krasner 1976;; Tabb 2004; and Kirshner 2003b).

Realists see international inequality as an inescapable fact of life based on asymmetrical control of strategic power resources. If developing countries are to have any hope overcoming their subordination, they must follow clear-eyed strategies to enhance their relative gains. Economic realists agree with liberal institutionalists that past decades have seen increasing participation of developing countries in global economic governance. However, rather than resulting in greater equity, they charge that developing country participation in global governance has reproduced global inequality and extended the dominance of developed countries (Wade 2003c). Success in international markets in the economic realists' world derives from the relative (economic, military, reputational, and ideological) power of one's home state—and only secondarily from having good products and services to sell. Nonetheless, many social justice realists allow for developing country agency within their global structuralism. Poor countries must vigilantly guard their interests, bargain hard, and attempt to accumulate strategic resources and devise strategies that will enhance their bargaining power despite that international economic governance is skewed against them. Whereas economic liberals argue that developing countries should liberalize, most realists advocate that developing countries should establish states that can guide development by building capacity to take advantage of the opportunities presented by globalization. (Weiss 2003; Wade 2003a; Chang 2002).

To illustrate the fundamental importance of diverging mental models in shaping the policy prescriptions of contending "experts" we now explore the ways in which the unspoken perceptions common to adherents of each position shape their understanding of key issues of the global trade and financial regimes.

Mental Models of the Global Trade Regime

In 1948 fifty-six countries, meeting in Havana under the informal leadership of the United States' Truman administration, agreed on a charter for a proposed International Trade Organization (ITO) (Jackson 1998, Ostry 1997). The ITO included draft agreements on reciprocal tariff reduction, regulation of cross-border investment, labor standards for traded goods, and government cooperation in price stabilization and marketing of international commodities. Though opinion leaders in Europe and elsewhere criticized the proposed text for being excessively biased toward American financial interests, it was rejected in the US Congress for conceding too much to foreigners. Fortunately, a year earlier the United States had negotiated the General Agreement on Tariffs and Trade (GATT) which was intended as an interim agreement prior to the establishment of the ITO. Since the GATT was exclusively concerned with tariff reduction, it did not need ratification by the Congress, because the President was authorized to reduce tariffs without Congressional approval under the Reciprocal Trade Agreements Act. Technically, the GATT was not an international organization of the same standing as the IMF and the World Bank. It never had a constitution, and it kept only a small secretariat designed serve the needs of the negotiating parties (Krueger 1998). Nonetheless, as a negotiating forum it was the site of a series of multi-year negotiations, known as "rounds" in which members negotiated reciprocal trade reductions on a range of products, primarily manufacturing goods. The agreements implemented the principles of "most favored nation" and "national treatment." The GATT was a great success in lowering tariffs on manufactures, and during the 1980s, the United States initiated new negotiations to expand the scope of the negotiations.

The negotiations culminated in the establishment of the World Trade Organization which replaced the GATT in January 1995. The WTO extended the scope of trade negotiations by including the agricultural and service sectors in the negotiations and by extending GATT authority to intellectual property rights and foreign investment. To strengthen the enforcement of its rules, the WTO created a dispute settlement mechanism that transformed the system for reconciling disputes from one based on diplomatic negotiations in which even the losing party could veto decisions to one where judgments rendered by independent dispute panels and an appeals board were ostensibly binding. Finally, decision-making in the WTO is by consensus, with each state receiving a vote. After a spectacular failure of trade ministers meeting in Seattle in late 1999 to come to an agreement on the agenda for future trade negotiations, the Doha Round finally was inaugurated the following year, with a promise that it would be a "development round," focusing particularly on issues of greatest importance to developing countries, including agricultural trade liberalization and "special and differential treatment" with respect to complying with expensive WTO commitments that would be especially onerous for the poorest countries. Assessments of the implications of the World Trade Organization for interstate inequality differ widely among observers operating from within the perspectives of each of the three visions of international political economy. The remainder of this section contrasts their understandings of four contentious contemporary trade issues: GATT/WTO procedures, intellectual property negotiations,

foreign direct investment, and agricultural trade. Table 3 summarizes the differences among the mental models on these four issues.

<u>Economic Liberals and the Trade Regime</u>

Intellectually consistent economic liberals understand the GATT/WTO as a necessary evil. In their Ricardian world view trade permits the more efficient allocation of scarce resources, thus raising total production and welfare. The fundamental public policy insight of neoclassical economics about trade—that eras of higher global trade have been eras of higher world growth—is very well-supported by evidence (Bhagwati 2004; Wolf 2004). Moreover, economic liberals point out that it is mathematically true that *even unilateral trade liberalization* raises the total quantity of goods and services available, in return for a given expenditure of resources, in the tariff-reducing country. Citizens in their identity as consumers, and producers in their capacity as purchasers of intermediate inputs, are unequivocally better off. The net increments to national income available through trade are more than sufficient, ceteris paribus, to compensate losers (that is, owners and workers in trade-competing industries) who lose markets, profits, or jobs. Nonetheless, in light of the imperfections of international markets pointed out by "new trade" theorists (Krugman 1990; Helpman and Krugman 1989), economic liberals have developed a grudging appreciation of the role of international organizations in responding to market failures and limiting the prospect that countries will engage in prisoners dilemma-like trade policy sequences that reduce the welfare of everyone (Baldwin 1992, 825-26). The economic liberal perspective is especially important to understand since free trade serves as the quasi-official ideology of the United States and other powerful trading states, even if it is not always be observed in practice.

<u>a) Procedures and Agenda-Setting</u>. Economic liberals won the day in the US Congress with the rejection of the ITO. They have found the minimalist GATT to be quite congenial. The GATT's mission was to serve as a forum for negotiations to reduce tariffs, a fundamental objective of the economic liberals. This mandate and the GATT's limited staff meant that there was little chance for unwarranted mission creep or goal displacement. The main threat to the proper functioning of the GATT, from the economic liberals' perspective, was the possibility that developing countries might use it as a forum to promote authoritative interventions into the global economy such as the commodity agreements that were part of the ITO or the more ambitious New International Economic Order of the 1970s and 1980s.

Economic liberals view the WTO with more ambivalence. They are generally supportive of the expansion of the GATT's agenda to include intellectual property rights and services (more below), but they worry that the WTO's institutional structure and its expanded mandate will lead to unwarranted intrusions on the sovereignty of democratic states. Claude Barfield (2001:1) notes that the institutional structure of the WTO creates an "imbalance between the WTO's consensus-plagued, inefficient rule-making procedures and its highly efficient dispute settlement system." The rules made through multilateral negotiations under the WTO – and the GATT before it – are often ambiguous and in need of interpretation. Yet the general assembly of the WTO can issue clarifications only with the approval of three-fourths of the WTO membership.

Amendments must gain the support of two-thirds of the WTO members unless they impinge on the rights and obligations of member states. In this case, they need a supermajority of three-fourths of the WTO membership for passage.

While the "legislative function" of the WTO remains cumbersome, the dispute settlement mechanism has been streamlined and transformed from a diplomatic to a more legalistic process. All disputes now are submitted to a unified institutional process. With the creation of the WTO, an Appellate Body was established to issue final decisions on disputes if members decided to appeal the decisions of a dispute panel. Members have the right to request the formation of a dispute panel, to appeal to the Appellate Body, and to see that the decisions of the dispute settlement mechanism are implemented – unless there is a consensus among the WTO members against a decision. These rights must be exercised within time limits during each stage of the process. The efficient dispute settlement mechanism, in the context of the inefficient rule-making process, has led to judicial activism in the global trade regime, to the distress of some economic liberals.

Some legal scholars contend that legalization of the WTO's dispute settlement system has transformed it into a "world trade court." They contend that the decisions rendered by the system affect the rights of private sector actors who consequently should be given the right to directly participate in the process (Ragosta 2000). Richard Shell (1996) suggests an "Efficient Market Model" according to which business interests have standing in the dispute settlement system in order to compel its decisions to conform to the requisites of market efficiency. Barfield (2001), in contrast, argues that allowing any non-state actors to participate in the proceedings of the WTO or even to submit *amicus* briefs is undemocratic, since only states are subject to democratic accountability.

b) Intellectual Property. Intellectual property rights must strike a delicate balance between the objectives of creating incentives for innovation and improving social welfare by providing public access to innovations. In an era when great technological dynamism has enhanced the perceived need for intellectual property protection and when markets have steadily expanded to include developing countries with lax protection, economic liberals have given strong support to measures to strengthen international property rights and improve their enforcement. Until the establishment of the WTO, international intellectual property rights were under the jurisdiction of the World Intellectual Property Organization (WIPO). Many economic liberals felt that the WIPO was inadequate to the task because developing countries had too much power within it and because its means of enforcement were too weak (Sell 2003:102,104; Ostry 1990:24).

The creation of the WTO in 1994 stipulated that all countries joining the organization abide by the provisions of the agreement on Trade-Related Intellectual Property Rights (TRIPS) that was listed as an annex to the WTO charter. The WTO also established the Council for Trade-Related Aspects of Intellectual Property Rights or TRIPS Council. All member countries are included as members of the TRIPS Council. The Council is responsible for overseeing TRIPs implementation. WTO members must notify the Council of the measures that they have taken to comply with the TRIPS provisions. They must respond to questions posed by the other members of the TRIPS

Council. The need to improve enforcement of intellectual property rights was an important reason for economic liberals' support for the WTO dispute settlement system.

c) Trade-Related Investment. The attitude of economic liberals toward the so-called "Singapore issues," placed on the agenda by the United States and European Union at the 1996 meeting of trade ministers in that city, is similar. The Singapore issues—investment, competition policy, government procurement, and trade facilitation—are not about traditional cross-border exchanges of goods ("trade") at all, but instead propose to "level the playing field" between national firms in each country and transnational corporations (TNCs) engaged in global production and sales. Foreign direct investment by TNCs is increasingly important for the world economy. For example, total TNC sales are now estimated to be larger than world trade, itself well over $6 trillion in 1995.[5] Intra-firm trade among TNC subsidiaries and affiliates now accounts for about a third of world trade, and sales of multinational firms to non-affiliates for another third (STO 1996b). The total stock of foreign direct investment (FDI) has grown from 6.6 percent of the world economy in 1980 to 22.9 percent in 2003 (UNCTAD 2004b:399). Moreover, the regulatory framework for the international direct investments of TNCs is of great significance to the advanced industrial countries, as they are both the major source and largest recipients of FDI, accounting for 93 percent of outflows and 65 percent of all inflows in 2003 (UNCTAD 2004b:372, 367).

Direct investment by TNCs is also enormously important for the developing countries. For example, the accumulated stock of inward FDI in developing countries was only about 12.4 percent of their combined economies in 1980, but had nearly tripled to 31.4 percent by 2003 (UNCTAD 2004b:399-400). Moreover, developing countries' exports of manufacturers, measured by volume as well as total sales, have grown much more rapidly than their exports of primary products, suggesting to economic liberals in particular that the future prosperity of poor countries depends on attracting TNC investment.[6] The bulk of all FDI stock is in the larger, more dynamic developing country economies, with only five countries holding 61.4 percent of the stock of all FDI in developing economies in 2003 (UNCTAD 2004b:367-381).[7] However, TNCs loom large even in many of the poorest countries. In 2003, the ratio of FDI to gross national product (GDP) averaged 24.5 percent across 49 of the least developed economies (UNCTAD 2004b:400-410).

For economic liberals, both traditional trade barriers and non-tariff barriers to TNC production and sales in foreign markets represent economic distortions whose removal would increase efficiency and enhance prosperity. The agreement on trade related investment measures (TRIMS) would prohibit national governments from imposing quid pro quo requirements when opening domestic sectors to foreign direct investors.[8] Such conditions imposed on inward FDI have included local content rules for the procurement of intermediate inputs to production, rules about employing and promoting citizens to managerial positions, and so-called balance-of-payments conditions, which bind TNCs to export a certain percentage of their output or to minimize imported inputs. For economic liberals, such conditions merely distort incentives. Instead, developing countries should devote their energies to fighting locational

incentives and subsidies in the already developed countries within the WTO, meanwhile engaging in "unilateral restraint," if necessary (Moran 1999:152-162). pp. 159-162).

So-called "competition policy," a key issue in the discussion about the rules for multinational investment, is about first creating and then enforcing local laws against oligopoly, that is, "crony capitalism." As is clear from the WTO website's explanation, state-owned enterprises, which often enjoy special privileges including freedom from competition in certain markets, are another explicit target. Since the advanced industrial democracies themselves reserve numerous sectors for nationally owned firms—in the United States including coastal shipping, railroads, domestic aviation, and some communications media—the first goal of competition policy is simply transparency, or the explicit spelling out of whatever preferences for domestic firms exist. In general, the United States and European Union favor a "negative list" (whatever is not explicitly prohibited is allowed) and many developing countries a "positive list" (specifying the sectors in which multinationals are welcome). In government procurement the intermediate goal is again simply transparency about what the existing local preferences are, while trade facilitation is about simplifying customs procedures, thus rendering them more transparent and reducing opportunities for corruption.

For economic liberals the legal reforms contemplated in the Singapore issues constitute improvements to the legal infrastructure of the local business environment. These reforms are about improving efficiency. They are intrinsically no more controversial than upgrading the physical infrastructure of roads, electricity, and water in order to attract foreign investment. Where political conflicts do occur, then, the economic liberal will perceive them as problems of collective action (for example, who should bear the costs of the provision of public goods), but *not* as conflicts over the distribution of rights and rewards across classes, social groups, or nation-states. The former, of course, are potentially susceptible to technocratic solutions, since cooperation is actually better for all parties than mutual non-cooperation. If, on the other hand, the conflict is over which group (as in local capitalists or TNCs) to "favor," then this is not a technical issue but a fundamentally political and distributional conflict. It is clear that the framing of the Singapore issues is critically important.

d) Agricultural Trade. Agricultural trade, the fourth issue we examine, has been highly contentious since before GATT's formation (see WTO website; Oxfam International 2005). Roughly but accurately, the poorer the country the larger the share of the population that makes its living from the production of primary products: food, agricultural raw materials, and the products of mining and drilling. Development economists long have noted the irresistible lure of cash (export) crops, which typically can earn higher returns than subsistence production, but also are subject to enormous price volatility in world markets. There are at least three significant but distinct issues here: commodity price stabilization, agricultural tariffs and non-tariff barriers such as quantity restrictions, and agricultural subsidies. Commodity price stabilization was to have been addressed in the ITO negotiated in the immediate postwar years, but did not form part of the GATT. It is easy to model the problem of highly volatile commodity price swings from within the assumptions of neoclassical economics. The paradigm

suggests two possible solutions, neither of which is necessarily anti-market. The better (more efficient) one is to have well-developed insurance and futures markets, thus permitting farmers to employ financial contracts to offset risks. A more cumbersome option is for the state or a cartel of producers to stabilize prices through smoothing fluctuations in output, via a combination of stockpiling, quantity restrictions on production, guaranteed minimum price supports, and the like. Domestic US public policy has employed both financial and output-management techniques to smooth farm incomes. However, economic liberals have been slower to acknowledge international commodity price swings as a problem, perhaps in the fear that the cure—moral and intellectual legitimation for international commodity cartels, at least in the absence of flexible financial insurance options available to low-income producers—would be worse that the disease.

Most economic liberals have decried both agricultural trade barriers and large subsidies to agriculture. There is no question but that trade in agricultural commodities has been much less free than trade in manufactures, to the immense frustration of many poor countries whose economy depends on primary product exports. Agricultural tariffs and non-tariff barriers—from direct quantity restrictions to "frivolous" health, safety, and packaging requirements—raise the price of imported food to consumers. Agricultural subsidies, or payments to domestic producers of import-competing commodities, lower the costs of production to domestic producers, enabling them to cut prices in order to compete with imports. Both serve as a tax on consumers and are inefficient from the perspective of economic liberals. Although it frequently is argued that types of agricultural payments that do not provide incentives to increase production (such as government compensation for farmland deliberately left fallow) are less trade-distorting, in that they do not result in artificially cheap domestic products that displace imports from more efficient producers abroad, the cost of all agricultural subsidies falls on domestic taxpayers. In practice, all agricultural subsidies tend to raise commodity prices within the home market, as their implementation is seldom clean.[9] Agricultural subsidies in the advanced industrial countries are massive. In 2004 total OECD agricultural subsidies were $280 billion. They accounted for 30 percent of producer incomes, exactly as they had in 1995, by which date the industrial countries had pledged in the Uruguay Round to begin phasing them out (Minder 2005). Most subsidies remain linked to production, thus providing an incentive for inefficient production.

Overall, economic liberals thus are bemused by the global trade regime, whose reciprocal "concession" modus operandi, they would say, largely misses the point, which is that free trade provides clear net benefits to both importing and exporting nations. They support patent protection for trade-related intellectual property (TRIPS) and measures to extend national treatment to foreign direct investors (TRIMS and the Singapore issues). Intellectually consistent neoclassical economists are aghast at the high levels of agricultural protection in the advanced industrial countries, because they see this as a cost to the subsidizing countries themselves. At the same time, the logic of this mental model leads adherents to reject what many developing countries claim is the unfairness of liberalized trade in manufactures versus protectionism in agriculture. Global trade liberalization may be incremental rather than sweeping in its

implementation, which is a pity, but is not necessarily evidence of systematic bias in the trade regime. Moreover, any attempt at retaliation by developing countries would make them worse, not better, off.

Table 3—Mental Models and Trade Issues

	Economic Liberals	Liberal Institutionalists	Social Justice Realists
GATT/WTO Procedures & Agenda-Setting	* Even unilateral trade liberalization benefits all * Concern over judicial activism and WTO overextension	* The WTO advances "fairness" via greater legalization & transparency * Informal participation of NGOs enhances democracy.	* Forum shifts & agenda-control demonstrate rich country bias * Legalization benefits rich states * TNCs drive core country positions.
Intellectual Property	* Intellectual property protection is pro-market, pro-growth, & desirable for all	* TRIPS may benefit rich countries most, but poor countries can link to progress elsewhere, as in agriculture	* Patents redistribute from poor to wealthy *Bio-diversity is common heritage of mankind.
Trade-Related Investment	* "National treatment" for FDI is simply good business practice for developing countries	* Both host countries & TNCs benefit from transparency & better corporate governance.	*TRIMS give unilateral market access for rich countries' service sectors. * To implement "Singapore issues" is to forswear a developmental state.
Agricultural Trade	* Rich country agricultural subsidies are scandalous—but retaliation is irrational, since all trade is good	*Rich country agricultural subsidies are problematic--but note substantial recent progress	* Rich countries agricultural subsidies harm poor countries * Great skepticism about Doha Round.

<u>*Liberal Institutionalists and the Trade Regime*</u>

Where economic liberals focus on markets, liberal institutionalists attend to institutions and processes, noting that the international trade regime consists of both formal institutions such as the WTO and NAFTA (the North American Free Trade Area), as well as informal networks of non-governmental organizations (NGOs), public-private groups of regulators and/or producers, and other interested parties. The analytical framework of most liberal institutionalists does not distinguish the concerns or prospects of developed from developing countries in any systematic fashion. Liberal institutionalists' preoccupation with the role of international institutions in the trade regime has, with limited exceptions, preempted analysis of the impact of these institutions on trade *outcomes* (Frieden and Martin 2002:143). Nor have liberal institutionalists done much analysis of issues arising from international inequalities.

<u>*a) Procedures and Agenda-Setting*</u>. The analytical framework developed by liberal institutionalists suggests that developing countries can exercise substantial influence in international trade negotiations, and several scholars note that changes in recent years are likely to enhance the influence of the global South. First, the increasing numbers of developing countries joining the WTO increases their weight in the negotiating process. While it may be true that the agenda has usually been initiated and controlled by developed countries (Keohane 2001), liberal institutionalists would point out that developing countries have been able to place items of concern on the agenda (Steinberg 2002). During the 1950s, a movement from majority and supermajority to consensual decision rules enhanced the ability of developing countries to resist unfavorable changes. In the Tokyo Round (1973-1979), developing countries succeeded in designating "tropic products" as a special priority sector. They also obliged the developed countries to alter multilateral trade negotiations codes to provide them with all the rights to the subsidies and anti-dumping codes without obligations to abide by those agreements. They forced the US and EC to provide an eight year delay for developing countries in implementing the customs valuation code. At the Uruguay Round (1986-92), the Group of Five, including Argentina, Brazil, Egypt, India and Yugoslavia, compelled developed countries to agree to procedural changes that enhanced their bargaining power. New rounds could not be launched and interpretations of GATT rules could not be issued without consensual support. Having instituted this change, the Group of Five blocked the formal beginning of a new round until developing country priorities were added to the agenda. Thus the Doha Round (2001 to date) was not formally initiated until seven years after the close of the Uruguay Round.

Second, liberal institutionalists conclude that the WTO embodies significant advances in procedural fairness as compared to the GATT, particularly via the WTO's greater emphasis on formalization and legalization of the trade regime, which liberal institutionalists conceptualize as an opportunity for the world community to hold even powerful states accountable to rules. The implicit analogy is to early advances in democracy, as English citizens (in practice at that time, the landed gentry) gradually acquired the right to hold even the sovereign accountable to Parliament. That is, this is "liberal" in the sense of rule by the law, as contrasted to governance by the arbitrary will of the powerful. Liberal institutionalists observe that the expansion of transnational

networks of NGOs and committed individuals may be particularly effective in obliging powerful state actors to honor their stated international commitments (Keohane, Moravscik, and Slaughter 2002; Goldstein, Kahler, Keohane, and Slaughter, eds. 2001). Of particular interest is the establishment of a new, "legalized" WTO dispute settlement process. The GATT adhered to diplomatic conventions requiring consensus for *authorizing* sanctions. In sharp contrast, the WTO enshrines a legalized system in which sanctions only can be *blocked* by a consensus of all WTO members including the complainant. In addition, the dispute settlement system was regularized by the creation of an independent WTO Appellate Body with seven members serving renewable four-year terms and jurisdiction over all appeals by disputants.

The operation of the WTO's dispute settlement system is one area involving developing countries where liberal institutionalists have conducted extensive research. Goldstein and Martin (2000) have found that with the establishment of the WTO the share of cases initiated by developing countries increased from 19 to 33 percent. Simultaneously, they found that there was a drop in the percentage of total cases against developed countries from 87 to 64 percent (p. 628) This discrepancy is in part explained by the fact that trade rules were extended to areas like intellectual property rights that included developing countries. Argentina, Brazil, Chile, India, Indonesia, Korea, Mexico, the Philippines, Thailand and Venezuela account for nearly all the activity by developing countries as both complainants and defendants. It appears that legalization has made the more dynamic emerging markets the targets of more active enforcement of new trade rules at that the same time that it has facilitated their initiation of cases to protect their rights. Though many developing countries will benefit from recent WTO decisions against US cotton subsidies and the European Union's sugar subsidies, least developed countries remain marginal actors in the dispute settlement system (Hudec 1999; Kuruvila 1997).

b) Intellectual Property. In contrast to economic liberals, liberal institutionalists are acutely aware that trade agreements are *political* documents, the product of negotiations among parties who bargain intensely over every clause. Their analytical framework suggests that developing countries will win bargaining concessions, however incremental. Both NGOs and international organizations have played a crucial role within the TRIPs negotiations. Multinational pharmaceutical firms long had wanted to patent particular plants and plant combinations with medicinal properties, an endeavor that outraged policymakers in some developing countries, where some of these same plants were native and long had been used by traditional healers.[10] Another issue concerned the rights of farmers to grow future crops once they had purchased a single batch of genetically-modified seeds. Even before TRIPS negotiations, Pat Mooney of Rural Advancement Foundation International developed the concept of farmers' rights to discretion over seeds as opposed to breeders' rights. In 1993, thousands of Indian farmers protested in 1993, and Vandana Shiva led a campaign against the "biopiracy" that was made possible by the provisions for patenting life forms. In 1997, NGOs meeting in Thailand issued the Thammasat Resolution declaring the primacy of the 1993 Convention of Biological Diversity over TRIPS. Many developing countries quickly followed the lead. The Consumer Project on Technology (CPT) punched more holes in

the case for TRIPS. James Love, CPT director, conducted a study demonstrating that the US government had paid for much of the research for many drugs. With Ralph Nader, Love wrote to the then United States Trade Representative Mickey Kantor in 1995 asking why TRIPS trumped reasonable pricing for medicines when research costs were largely paid by the government. NGO's along with international organizations and the governments of developing countries also succeeded in reframing an important dimension of TRIPS from a free trade to a health issue. Health Action International, an NGO based in Amsterdam, helped the World Health Organization's World Health Assembly draft a WHO "Revised Drug Strategy" that gave priority of public health over commercial interests by recommending compulsory licensing and parallel importing of vital medicines. The CPT and HAI prepared WHA negotiators to resist US objections to compulsory licensing by pointing out that the United States made extensive use of compulsory licenses. The UN Development Program and the World Bank also expressed support for these public health concerns. On June 27, 2001, the UN General Assembly issued a "Declaration of Commitment on HIV/AIDS" that endorsed the human rights dimension of the issue and created a Global Fund to fight AIDS. In pharmaceuticals as well as other sectors, concessions to the global South serve to strengthen the overall intellectual property protection regime (cf. Shadlen, Schrank, and Kurtz 2005).

c) & d) Trade-Related Investment and Agricultural Trade. As the liberal internationalists' analytical framework would lead us to expect, developing countries have won partial victories in the negotiations over the regulation of foreign direct investment (FDI). Developing countries used their negotiating power to halt the Cancún ministerial meeting in 2003 when a group of African and Caribbean countries refused to accept negotiations on the Singapore issues--although arguably the underlying cause of the breakdown was the inability of the US and EU to agree on the reduction of agricultural subsidies.[11] After the collapse at Cancún, the wealthy countries' so-called Quad club – an important, informal, pre-WTO negotiating forum composed of the United States, European Union, Japan, and Canada – was transformed into the Five Interested Parties (FIPS), including the US, EU, India, Brazil, and Australia, to negotiate on agricultural issues. Negotiations by the FIPS as well as an Indian threat to walk out of negotiations in Geneva in July 2004 resulted in progress on the nettlesome agricultural issue when the EU offered to stop direct subsidies of farm goods if other developed countries agree to take similar measures. Liberal institutionalist analysis would note that developing countries thus have managed to *link* progress on the Singapore issues, desired by the core capitalist economies that are home to most TNCs, to progress on agricultural trade liberalization, of great interest to many developing countries. In addition, they would observe that many developing countries will likely benefit from Brazil's victories against US cotton subsidies and European Union Sugar subsidies in 2004.[12]

Economic Realists and the Trade Regime

Economic realists recognize the absolute gains from free trade in terms of global economic growth, but believe that the international political economy requires responsible national leaders to attend to relative gains. Most national trade negotiators, irrespective of which country employs them and certainly including the trade lawyers representing the core industrial democracies, behave as though they were committed

economic realists. Social-justice-oriented realists note that interests repeatedly trump ideology in the making of the US' international trade policy. In order to protect themselves, developing countries should be wary, united, and unabashedly self-interested.

Social justice realists ground the US trade initiatives of the 1980s and 1990s in profound changes in the global economy in general and the United States economy in particular. During the post-World War II era, economic development has become more knowledge-intensive as human capital has supplanted physical capital as a source of value added. The end of the fixed exchange rate system in 1971 and financial globalization contributed to the growing importance of the financial sector, especially in the United States where financial sector firms play a predominant role in servicing international financial transactions. American firms also led the great technological revolution in finance which made financial derivative instruments available to hedge various forms of risk encouraged greater financial trading and promoted the "financialization of the economy" which has enhanced the power of financial interests (Wade 2005). Innovations in communications, transportation, and financial technologies contributed the internationalization of production and a general expansion of global trade. These trends fundamentally altered the balance of power in the political economy of the United States, diminishing the power of sectors like textiles and steel which were not globally competitive, while enhancing the power of finance, pharmaceuticals, entertainment, and informatics which were at the forefront of their sectors. The United States' burgeoning trade deficits enhanced the power of these sectors aligning their interests with the government's interest in curtailing the country's current account interests. These changes, in the context of the demise of the Soviet Union, greatly encouraged forceful American initiatives at the GATT/WTO (Sell 2003; Tabb 2004).

a) Procedures and Agenda-Setting. Realists are skeptical of the liberal institutionalists' claim that procedural reforms rendered the trade regime more responsive to developing countries, making a number of related arguments. The rules and procedures of the GATT/WTO demonstrate the primacy of power over the requisites of efficiency or cooperation. The US and other core countries bend procedures to advance their interests. They bias formal rules in their favor. They shift negotiating venues among international organizations to ensure that they operate from within organizations that they control. When these means of getting their way are inadequate, they often flout their international commitments, claiming the primacy of national sovereignty.

Realists emphasize how the asymmetries of power shape the development of international institutions. In contrast to liberal institutionalists' assertion that international institutions like the GATT/WTO produce mutual gains, realists contend that nations establish and participate in international institutions with an eye towards relative gains, and they are concerned to analyze the distribution of costs and benefits. For example, and in sharp contrast to economic liberals, economic realists do not conceptualize the practice of one state trading the "concession" of liberalization in one sector for another state's liberalization in another sector as a quaint if largely harmless relic, but instead as the essence of the global trade regime. Access to foreign markets is a

benefit; foreign access to one's home market is, on the whole, a cost. Within this framing, she who possesses the deepest domestic markets has the best bargaining chips.

The US, in common with other powerful countries, often has employed the procedural tactic of "forum-shifting" (Tabb 2004; Sell 1998, 2003). For example, the US rejected the ITO in 1948 largely because it would have included a commitment to stabilize international commodity prices, a critical concern for most developing countries, preferring to focus only on tariff reduction in a quickly pulled together alternative forum, the GATT. The US and other core industrial countries have been hostile to many other developing country initiatives, including the United Nations Conference on Trade and Development (UNCTAD), created in 1964, known for championing "developmentalist" barriers to trade, and the push for a New International Economic Order (NIEO) in the 1970s. As part of the NIEO effort, the United Nations Center on Transnational Corporations (UNCTC) launched negotiations for a code of conduct for multinational corporations. In that decade, the US and other core countries were quite unwilling to discuss regulation of TNCs, which they perceived as an interference with free markets. It was in this decade that the United States boycotted the International Labor Organization and saw its influence in the United Nations wane. Perceiving the UN system as hostile, the United States and Western Europe turned to the GATT to achieve their objectives. They initiated simultaneous bilateral and regional negotiations. Weaker states were more inclined to agree to demands when directly confronted by the US or EU in bilateral negotiations in order to gain or retain access their markets. Once a developed country acquiesced to these demands, it was more likely to support them in multilateral negotiations so that it was not disadvantaged vis-à-vis other developing countries (Shaffer 2005, 133-34; Braithwaite and Drahos 2000). When developing country resistance at the GATT mounted during the Uruguay Round (1986-92), the United States and EU – with the assistance of GATT Director-General Arthur Dunkel – terminated the GATT and imposed the creation of the WTO with a "single-undertaking agenda" that made membership in the new organization contingent upon acceptance of provisions for TRIPS, trade related investment measures (TRIMS), and provisions for trade in services (GATS).

In contrast to the economic liberals' concern for the efficiency of the trade regime and the liberal institutionalists' highlighting of the improved procedural equity under the WTO, economic realists focus on the ways in which developing countries remain disadvantaged. As a "member-driven organization," delegates play a much more active role in the WTO than in other international organizations (Blackhurst 1998). The countries able to sponsor larger delegations with more resources exercise a greater influence over WTO activities. All WTO councils, committees and working groups are open to all members. In 1997, there were 2847 WTO meetings, an average of ten a day (Shaffer 2005, 134). Many poor countries, some of whom do not have any full time staff in Geneva, are disadvantaged. Blackhurst (1998:43) contends that wealthier countries oppose expanding the WTO secretariat precisely because they hope to maximize the influence of their large delegations.

Economic realists argue that poor countries are almost as disadvantaged by the agenda-setting process of the WTO as they were under the GATT. In the each case, the agenda formulated to initiate the round is usually open and developing countries have succeeded in placing items like "tropical products," "textiles," and "special and differential treatment" on the initial agenda negotiated at the beginning of the rounds. But generally these items receive little attention in subsequent negotiations and do not figure in the final agreements since the *defacto* informal agenda setting process has historically minimized developing country participation (Steinberg 2002). Instead, most initiatives reaching the final negotiations originate in Washington or Brussels. They are then negotiated by the Quad: the US, EU, Japan, and Canada. Drafts may then be submitted to larger developed country groups such as the G-7 or the OECD before being taken to the WTO. There they are initially submitted to negotiation at the "Green Room" where informal caucuses of 20-35 members--usually selected by the US, other developing countries or the WTO secretariat--meet to discuss the items. So-called ministerial rounds, where final decisions actually are made, are "politicized" in ways that are disadvantageous to developing countries (Narlikar 2004). Even former EU representative Pascal Lamy – now WTO Director-General – recently admitted that developing countries might deserve better representation in Green Room negotiations.[13]

When liberal institutionalists remark upon the advantages presented by the WTO's dispute settlement system for developing countries, they neglect the fact that the idea originated from a 1984 study commissioned by IBM executive John Opel to create a system to enforce TRIPS. It was advanced at the GATT by the United States Trade Representative (USTR) and resisted by developing countries, who remain among its strongest critics (Sell 2003:101; Smith 2004:547). In any case, the possible advantages of greater transparency and impartiality deriving from "legalization" of dispute settlement within the WTO must be understood in the context of the systematic inequalities of the international political economy and WTO rules of engagement biased in favor of developed countries. Their asymmetric dependence of developing countries on developed markets, foreign investment, and foreign aid may deter developing countries from filing complaints. The costs of litigation are high. The efforts of developed countries usually receive substantial assistance from the private sector, while until now the private sector in developing countries has provided little help. With limited resources and meager assistance from the WTO, least developed countries claim that they cannot even follow the proceedings much less defend their rights.[14] The United States and the EU are by far more likely to use the dispute settlement system to advance their interests.[15] The sanctions provided under the WTO system – restrictions on market access – are inherently biased in favor of large markets. Finally, recent decisions by the WTO Appellate Body to allow for third party participation and *amicus curiae* briefs are likely to enhance participation of developed countries relative to developed ones (Smith 2004).

Social justice realists are particularly attentive to the order of liberalization across sectors. The still highly protected nature of agricultural trade—at least in those temperate climate zone commodities in which advanced industrial country farmers compete—has been noted. There is also the thorny and persistent issue of unequal liberalization across different types of manufactured goods sectors, where those comparatively capital-

intensive sectors in which one or more advanced industrial country is a highly competitive exporter tend to have many fewer trade barriers in the major markets (that is, the home markets of the core capitalist democracies) than confront would-be exporters of labor-intensive manufactures, in which poor countries typically have a comparative advantage. Thus, for example, all products are grouped with similar items into tariff lines. As of the late 1990s, the US allowed entry of 39.4 percent of tariff lines for all manufactures into the country duty free. The average tariff on all manufactures was 3.9 percent. However, for textiles and clothing, a classic arena of comparative advantage for early industrializers, only 11.3 percent of all tariff lines entered duty free, and the average duty on all tariff lines was 8.9 percent. The same notably-higher-than-average tariffs appeared in one other area: leather goods and footwear, another labor-intensive sector. The pattern of tariff protection across sectors in the E.U. and Japan was similar or even less open than that in the US (Lorentzen 2002:92-93). And this is without even mentioning the onerous non-tariff barriers in these areas, such as the notorious Multi-Fiber Agreement, by which developing countries agreed to delay for decades their demands for wealthy country liberalization in the textile and clothing sectors. At the end of the 1990s, overall most favored nation (MFN) tariff rates of developed countries averaged less than five percent; however, tariff peaks above 15 percent concentrate in the products that developing countries export. In 1999, least developed countries – a category including 49 of the poorest countries in the world, mostly in Africa – paid tariffs averaging 15.7 percent on their exports to the United States (Hoekman 2004::3).

After fifty years of trade liberalization, the advanced capital democracies have remained deeply protectionist in precisely those sectors in which developing countries have the clearest comparative advantage. Since the policy rhetoric of the advanced industrial countries, and most particularly the United States, so resolutely proclaims the virtues of trade liberalization, including even unilateral commercial opening, it is hardly surprising that developing countries have found this protectionism in practice deeply discouraging. It is not that developing countries begrudge even wealthy countries some time to adjust to economic globalization. It is rather that wealthy countries have pushed rapid liberalization on developing countries, while reserving very long adjustment periods for themselves. Moreover, recent evidence suggests that, much collective angst notwithstanding, fears that trade opening and other forms of economic globalization would lead to a “race to the bottom” and destruction of the postwar social welfare state in the OECD countries have been much exaggerated: in fact, social spending typically has risen to compensate citizens for the increased volatility and risk associated with deeper integration with the international economy (Garrett 2001). However, poor countries have been much less able to maintain their already meager levels of social spending in the face of trade opening and greater international economic liberalization, perhaps due their governments’ lack of access to deep financial markets, of which more below (Wibbels 2005). Social justice realists are not surprised by these outcomes, as they have repeatedly criticized GATT/WTO structure and procedures.

b) Intellectual Property. Moreover, when powerful countries do not get their way, they simply ignore their international commitments. Other countries are reluctant to confront them, for fear they will simply withdraw, thus dooming the regime. The history

of intellectual property negotiations reveals numerous examples. The rules negotiated for intellectual property in particular were premised on the "monoeconomic" view that a single set of market institutions was best for all countries regardless of their level of development.[16] TRIPS transformed the legal definition of intellectual property from a concept delimited by market costs to one based on future returns (Tabb 2004:318). Their controversial premise that intellectual property rights should be altered to increase the term of legally created monopolies to reward innovators at the expense of promoting the diffusion of economic benefits redistributed the benefits of innovation to innovators – mostly located in developed countries – at the expense of technological adopters – largely in developing countries. The extension of monopolies granted by the new rules arguably contradicts the impetus for free trade that was the central objective of the GATT. Telling, the new rules were inconsistent with historical patent law in the United States which up until 1982 had been relatively lax (Sell and May 2001; Sell 2003:60-74).

As early as 1974, the US Trade Act of that year authorized the president to impose sanctions even when these contradicted GATT obligations.[17] The Trade Act of 1979 gave private business the right to seek redress and required the USTR to take into account the views of affected industries. The creation of the Court of Appeals for the Federal Circuit (CAFC) in 1982 brought a major change in American patent policy as the "patent court" altered the traditionally lax enforcement of patent rights in the US by quickly becoming a stringent supporter of the rights of patent holders against infringers. The 1988 Omnibus Trade and Competitiveness Act transferred authority to determine whether foreign government policies were unfair and whether to take action from the President to the USTR. At the same time, it required the USTR to consult with private sector petitioners and domestic industries before taking action. Complainants under the act were no longer required to demonstrate injury, and they no longer needed to prove that their businesses were efficiently and economically operated. The Act required the USTR to meet a time-bound schedule for investigating complaints and taking actions.

One does not have to agree with Susan Strange's (1994:[page?]) assertion that the process of globalization has been designed to "make the rest of the world safe and welcoming to American capitalism" to see that many of the proposals for new rules under the GATT and WTO have been initiated by American corporations. In the domain of intellectual property, Sell declares that "twelve corporations made public law for the world" (Sell 2003:96, 96-108 passim). She recounts how corporate leaders in the Advisory Committee on Trade Negotiations, in particular, Edmund Pratt Pfizer Pharmaceuticals and John Opel of IBM, persuaded the USTR that intellectual property rights should be included in the GATT negotiations and then played a key role in formulating the American negotiating position. By the late 1980s, networks of private sector corporate interests across the US, EU, and Japan had succeeded in framing the TRIPs issue in a favorable manner, drafting model laws and teaching seminars at the WIPO. Multinational corporations were presented as defending their inherent rights from "pirates" in developing countries (Shaffer 2005:136). As a result, according Maskus (2000:142), the TRIPS agreement annually transfers $5.8 billion from developing countries to the United States.

c) Trade-Related Investment. Today's social justice economic realists, like the developing country governments whose cause they champion, typically recognize that developing countries need investment capital, technology, and managerial expertise, and thus compete among themselves to attract foreign direct investment. Moreover, despite much criticism, FDI arguably has had mostly positive consequences for wage levels and even labor rights in many or most developing countries (Mosley and Uno 2005). Still, economic realists remain considerably more ambivalent about foreign direct investment by transnational corporations than are economic liberals and liberal institutionalists. They do not see firms as politically-neutral economic maximizers within any given host national economy, but instead as rational maximizers within a global political economy dominated by the wealthy capitalist democracies. Even multinational firms engaged in producing goods via far-flung global production networks will remain quite sensitive to public opinion in the country where their head office is domiciled and where they consequently remain most vulnerable to legal and regulatory shifts or attacks. Given these structural constraints, developing countries rationally fear that, in a crunch, TNCs will sacrifice host-country interests to those of their home-country governments, investors, customers, and other stakeholders. From this perspective, the debates about whether developing countries should sign on to new, global rules for foreign investment is not principally about the provision of clear, predictable property rights—as the economic liberals and liberal institutionalists would have it—but rather about developing country governments yielding up valuable bargaining chips in advance of the game.

New investment rules might increase direct costs for poor countries. As the reliably economically liberal *Economist* put it, "Some of the proposed [Singapore] rules make sense on their own terms (who could be against swift customs clearance or transparent government procurement?) but they would be costly for poor countries to implement and monitor. Worse, if poor countries signed up to new obligations, then failed to fulfill them, they would be vulnerable to trade sanctions."[18] Another concern for developing countries is whether adoption of a "level playing field" for home and foreign firms is the correct strategy for industrial catch-up. Economic realists note that today's advanced countries themselves employed a host of state interventionist strategies during their early industrialization (Chang 2002). Moreover, the developed countries are hypocritical with respect to welcoming inward FDI. For example, in recent years American politicians and pundits have panicked when FDI as a share of total manufacturing facilities or raw materials production reached levels much inferior to those long found in most developing economies.[19]

In sum, host country governments prefer to conceptualize access to their natural resources, the labor of their workers, and the buying power of their citizens as host country assets, which then may be *traded* for a concession by the foreign investor to contribute to achievement of national economic planning goals. Examples of desired TNC commitments include everything from a promise to invest a certain sum annually for a period of years, to acceptance of specific targets for employment, reinvestment of profits, technology transfer, or exports. We note that sub-national governments in the advanced industrial countries routinely engage in similar sorts of bargains with firms

considering relocation.[20] From the perspective of economic realist policymakers in the developing world, adoption of the new investment norms desired by TNC firm
s in the developed countries--and pursued over the past fifteen years by TNC home governments in a variety of international fora, from the North American Free Trade Agreement (NAFTA), to the Multilateral Agreement on Investment (MAI), to the Free Trade Area of the Americas (FTAA), to the WTO (Tabb 2004: 398-406)--constitutes an updated version of "extraterritoriality," the legal doctrine by which colonial powers once insisted that their citizens in Asia be subject only to their home country law and courts, and not bound to obey the local law of the colonized polity.

d) Agricultural Trade. Not surprisingly, social justice realists have been quite skeptical of how much agricultural trade actually has been liberalized thus far. They share this skepticism, incidentally, with the economic liberals. However, while economic liberals believe that even unilateral trade liberalization is mutually beneficial, most economic realists are more skeptical (Wade 2004; Rodrik 2001). Economic realists understand unequal liberalization across sectors as a clear consequence of differential power in the international system, thus leading them to conclude that the status quo will not change easily. From within this framework, access to one's own home market is an important bargaining chip.

Non-governmental organizations (NGOs) such as Oxfam have devoted time and funds to developing the expertise to assist developing countries in countering the flood of lawyers working for protectionist agricultural interests in the major OECD countries. For example, the rich countries agreed in the Uruguay Round to end agricultural "dumping," or the export of agricultural produce below its cost in order to preserve agricultural prices, and farmer incomes, at home. Oxfam (2005) notes that, in practice, the WTO has defined dumping as international sales below the "normal" price of a commodity in the domestic market, which allows for countries legally to make numerous payments to farmers, so long as their governments are willing to have high domestic food and other agricultural prices. In contrast, Oxfam defines dumping as sales at prices below the total cost of production, by which standard much dumping continues. The same report also unmasks the common practice of "box-shifting," whereby advanced industrial countries reclassify payments to their agricultural sector from those falling in the so-called "amber box" of subsidies that clearly were trade-distorting since they explicitly encouraged overproduction, as either "blue box" (trade-distorting but with some incentives to discourage production) or "green box" (non-trade distorting, such as payments to farmers to keep their land fallow).

Total agricultural subsidies in the OECD have remained nearly constant: at above $250 billion (in 2002 dollars) annually since 1986 (Oxfam 2005:14). In 2003, they accounted for 32 percent of total farm revenue (Hoekman 2004:5). According to the overall trade restrictiveness index (OTRI) – which incorporates MFN tariffs, core non-tariff barriers to trade, domestic agricultural subsidies, and major trade preference programs – agricultural protection is a major source of discrimination against developing countries. The EU's OTRI for agriculture is over 25 percent in contrast to its OTRI for manufacturing which is less than four percent, and the US's OTRI for agriculture is

agriculture OTRI is 12 percent, while for industry it is only four percent (Hoekman 2004:16). Sugar is one of the most protected of all commodities with OECD protection rates frequently above 200 percent. OECD support to sugar producers is $6.4 billion annually, about equal to all developing country exports. The United States provided $3.9 billion to cotton growers in 2003. According to one estimate, losses to cotton growers in West Africa alone were $250 million annually (Hoekman 2004:6). The bottom line for economic realists is that the enormous domestic markets of the US, European Union, and Japan remain effectively closed to genuinely efficient producers in developing countries, and in a number of instances subsidized OECD production is dumped in global markets, further depressing incomes and increasing poverty in developing countries.

This section on the global trade regime has explored differences in the ways in which economic liberals, liberal institutionalists, and social-justice-oriented economic realists conceptualize procedural changes from the GATT to the World Trade Organization, recently adopted global protections for intellectual property, proposed new regulations on foreign direct investment, and the state of agricultural trade at the beginning of the twenty-first century. As we have shown, their differing analyses of these issues are neither random nor irrational, but in each case form part of a coherent and intellectually consistent—though mostly non-falsifiable—world view. Not surprisingly, scholars working within each of these traditions also employ different lenses with which to observe the global financial system and to make recommendations about improving its governance.

Mental Models of Global Financial Governance

Our discussion of the trade regime hinted at structural shifts in the world economy in the final quarter of the 20th century. Moreover, these changes implied shifts in the international comparative advantage of the US and other advanced post-industrial economies, which increasingly saw their future in the export of services. We begin our consideration of the international financial regime with a discussion of these objective changes, as well as of their implications for increased risk—though perhaps also opportunity?—for developing countries.

In the final quarter of the twentieth century, financial markets became globalized (Armijo 1999, 2002). As compared to any period since the First World War, there has been an increased *volume* of purely financial cross-border flows, not tied to any exchanges of goods and services. In 1973, daily foreign exchange trading ranged from about $10 to $20 billion, and seldom was more than twice the value of trade-related money flows. By 1980, daily forex trades were about ten times trade flows. By 1995, the value of daily trading had climbed to $1.3 trillion, or about seventy times daily trade flows. Daily cross-border financial flows are now greater than the total official gold and foreign exchange reserves of all of the world’s central banks combined (Eatwell and Taylor 2001:3-4). Cross-border financial flows also display increased *volatility*, or propensity to transit borders again within a short period, of the modal flow. New trading technologies and products have expanded the scope of short-term capital flows which are more volatile and speculative than longer-term flows. According to UNCTAD

(2004a:vii) study, more than 80 percent of these transactions "are related to round-trip operations, motivated by hedging, arbitrage and speculative considerations."

Globalized finance brings with it the possibility of at least two benefits: better earnings for those who save, as their funds may now seek good investment opportunities worldwide, and its counterpart, lower costs of funds for good business projects, as there is now a deeper pool. In other words, wider and deeper markets will generate better outcomes for all. It also brings new challenges. The first potential challenge of globalized finance is the question of whether or not there ought to be supranational regulation. All national governments in capitalist states regulate their domestic financial systems. National financial regulations include liquidity control through the central bank and other monetary authorities, protections for investors in financial assets and the capital markets via laws mandating standards for corporate governance and financial disclosure, and prudential regulations and lender of last resort facilities to prevent the irresponsible or illegal actions of one bank or financial institution from generating a systemic crisis. Logically, the same challenges of liquidity management, investor protection, and prevention of systemic crises also should occur at the level of the international economy, yet there is little agreement on whether it is possible, or even desirable, to construct an international or supranational regulatory authority to monitor and oversee international financial markets (Armijo 2002; Brawley 2002; Eichengreen 2000). In practice the role of maintaining *systemic stability* has been fulfilled by national economic policymakers--especially the Treasury Secretary and Chairman of the Federal Reserve Bank—in the US and a few other core advanced industrial countries.

The de facto international financial governance regime thus is informal and ad hoc. Since the dominant power and its those with whom it consults have no formal responsibilities, there is no possibility of democratic or representative oversight. Opinions differ on whether the current regime of de facto, sub rosa, global financial governance ought to be conceptualized as a *problem*. For example, liberalization of international financial markets since the mid 1970s has coincided with slower world economic growth and heightened global inequality, but the lines of causation are intensely debated (Eatwell and Taylor 2001; Felix 1999; Wade 2005). One important question is whether—even if we judge their consequences to be more negative than positive—it is possible to reduce the speed and liquidity of world financial flows, now that advances in computing and telecommunications have made them possible. Many have concluded that it is not (for example, Eichengreen 1999).

The second challenge is that of domestic macroeconomic management, which is made significantly more difficult by free inflows and outflows of foreign capital. National policymakers eventually must choose between attempting to manage domestic inflation and employment (irrespective of the consequences for the exchange rate), or targeting a relatively stable external price for the national currency (and thus allowing the decentralized and unpredictable decisions of global investors to determine the level of domestic economic activity). This is the "unholy trinity": the impossibility of maintaining domestic macroeconomic management, capital account openness, and fixed exchange rates (Cohen 1993). When national economic policymakers are unable to

manage these multiple parameters and imperatives, financial crises (exchange rate crises, often accompanied by domestic banking crashes) occur. From 1780 to 1980, there was a financial crisis every seven years, but in the 1990s there a major currency crisis occurred every nineteen months (Blyth 2003:239). For developing countries, financial globalization has been associated with both inward-investment-driven booms, arguably desirable but risky, and increased frequency of financial crises, almost certainly undesirable (Kaminsky and Reinhart 1996).

The three mental models structure the ways their adherents conceptualize financial markets, international inequality, and past, present, and future global financial governance. The discussion that follows, summarized in Table 4, highlights some of the most consequential differences among these alternative conceptual frames across four key issues: capital account liberalization, trade in financial services, the causes of the Asian financial crisis, and the role of the US as a key currency country.

Economic Liberals and the Global Financial Regime

For economic liberals the international political economy is about market transactions, except when states or other political actors interfere. Economic liberals are skeptical as to whether there has been, or at least has needed to be, any central authority in world financial markets. They conceive of the generally successful Bretton Woods postwar monetary regime as having been something like Adam Smith's night-watchman. The crucial point is that money is conceptualized as a commodity like any other: therefore, central planners cannot possibly hope to improve on the efficient allocation that would be achieved by a myriad of decentralized supply and demand decisions.[21] International economic exchanges of almost all types are mutually beneficial.[22] Markets clear, and will equilibrate sooner without artificial barriers to their operation (Friedman 1992; Brunner and Meltzer 1993; Dorn 1999). The role of states is thus to support commercial exchanges by upholding the rule of law and sanctity of contract. Respect of the government for private property, including property in the form of financial contracts and assets, is crucial to ensuring political liberty.

a) Capital Account Liberalization. Over the past twenty years, economic liberals in the US government, mainly via the Treasury and Commerce Departments but also with the assistance of private financial firms, have sought to promote capital account liberalization, both as the policy of national governments around the world and as the official goal of institutions of global financial governance, particularly the International Monetary Fund. These neoliberal reformers would free up most voluntary cross-border financial flows, including those unrelated to international purchases of goods and services, in other words, those flows that would enter the balance of payments in the capital account. The capital controls to be eliminated include barriers to outward flows of local savings, as in strict limits to the cash home country tourists can spend abroad and bans on Swiss or US bank accounts, but also checks on inward capital flows, such as government prohibitions on foreign borrowing by local firms and banks, or foreign institutional investors purchasing local corporate shares and securities.

The rationale for removing capital controls turns on efficiency, and the argument that unified, as contrasted to segmented, markets will maximize price and quality competition (Wolf 2005; Fischer 1997). In theory, capital account liberalization should be particularly beneficial for savers in any country, who are free to seek the best returns on their investments, as well as institutional investors such as mutual funds who aggregate the funds of many small savers. Moreover, capital account liberalization also should help relatively underdeveloped countries to industrialize, because their economies are presumed to be labor-rich and capital-short. Even if we presume that labor is not an undifferentiated mass, and that most contemporary investments in manufacturing or services require both skilled labor and adequate local infrastructure, the economic liberal's argument for capital account liberalization is compelling. Removing barriers to inward foreign direct investment, and creating the idealized level playing field between foreign and host country firms, discussed above in the section on trade-related investment measures, are forms of capital account liberalization. The views of economic liberals on liberalization of debt and portfolio equity flows follows the same logic. Money is a commodity, to be bought and sold at a market-determined price: the interest rate. In any case, capital controls cannot and do not work—contemporary technologies of telecommunications and computing render talk of slowing rapid cross-border flows futile.

Economic liberals in American public policy circles have been actively involved in lobbying for freer global financial markets in an assortment of international and transnational venues. In their mental model, capital account liberalization is a simple question of good versus bad economics.

b) Trade in Financial Services. Trade in services includes both the international sale of services such as consulting, shipping, and insurance, cross-border licensing and franchising of local units of global retail establishments (booked as portfolio investment, because the controlling owners are local), and foreign direct investment in the services sector, including in such infrastructure activities as telecommunications, electricity, water, as well as hotels and banks to serve local retail markets, and off-shoring of back-office business services. All of these activities are known as "trade," and thus included under the purview of the World Trade Organization. Much FDI in services takes the form of mergers and acquisitions of existing local firms, including state-owned enterprises, by transnational corporations, of which about 30 percent has been in finance (UNCTAD 2004b:118). While access of foreign institutional investors to local debt and equity listings in the stock exchanges of developing countries is considered capital account liberalization, overturning domestic laws requiring local firms to list on home-country stock exchanges is understood as "trade in financial services," because this allows the strongest private firms in many developing country markets to list on the New York or London Stock Exchange, often de-listing from the local stock exchange in compensation.

For economic liberals, increased trade in financial services, like capital account liberalization, is efficiency-enhancing. Domestic financial liberalization, including eliminating directed credit, reducing barriers to entry in the financial sector, and expanding the array of domestic financial instruments and sources of savings, along with

improved accounting transparency, spurs economic growth. Corporate governance experts distinguish between "relatively personalized, clientelistic and often patronage-oriented, [..and] heavily *relationship*-based governance systems, and governance systems that are predominantly *rules*-based" (Oman 2003:5), associating the former with finance from state banks and growth based on forced savings, and the latter with decentralized capital markets finance and productivity growth. Trade in financial services breaks up rent-seeking crony capitalism, promoting healthy financial "deepening."

c) The Asian Financial Crisis. The Mexican peso crisis (and its "tequila effect") of the mid 1990s, quickly followed by then the East Asian, Russian, and Brazilian crises of the late 1990s, was a shock to many, including many economic liberals who until then always had accepted the implicit notion that markets in money operated much like markets in other goods. "Efficient markets" do not produce crises (Blyth 2003:245). Economic liberals explained the disastrous consequences of the Asian financial crisis by emphasizing the shortcomings of the policies and institutions of these rapidly developing countries. Though acknowledging that "global financial markets also contributed to the situation," economic liberals like IMF Deputy Managing Director Stanley Fischer asserted that central to the economic crisis were "the problems of weak financial institutions, inadequate bank regulation and supervision, and the complicated and non-transparent relations among governments, banks, and corporations" (Fisher 1998:105). In other words, the source of the problem was that complex of personal-relationship-based business interests intertwined with state favors that has come to be derided as "crony capitalism."[23] Many economic liberals also laid the crises partly at the door of the IMF itself. In their judgment, the Fund's ever larger emergency bailouts of the 1990s—now totaling 'billions' rather than its previous 'hundreds of millions' of dollars—were a major problem. By acting as a de facto lender of last resort for the global financial system, the Fund had created a problem of "moral hazard," giving private financial institutions strong, market-based incentives to make risky loans. Some even advocated getting rid of the IMF altogether (Edwards 1998).

To remedy the crises, the IMF prescribed devaluation, fiscal austerity, and increased interest rates to attract investment and restore confidence in currencies, even if it increased unemployment and compounded problems for weak banks and corporations. To redress the underlying causes of the crisis, many economic liberals particularly urged structural reforms of the financial sector, reorganizing large corporate conglomerates, ending the collusion between state officials, financial institutions, and corporations that was the basis of Asia's "crony capitalism," and finally promoting greater transparency in the dealings of private sector and state institutions.

The aftermath of the Asian financial crisis brought to the fore divisions among policy-oriented economic liberals. Some concluded that the IMF was guilty of "overdoing it in East Asia" (Feldstein 1998, p. ?). In particular, they charged that by promoting structural and institutional reforms, the IMF was overstepping its mandate and undermining its own effectiveness. By imposing painful and controversial structural reforms, some contended that the IMF was driving countries to accumulate excessive amounts of foreign reserves, denying themselves much needed imports, and making them delay too long to avail themselves of the IMF's proper services when faced with

problems. Perhaps even worse, huge bailouts like the $57 billion in funding made available to South Korea worsened the problem of moral hazard which might encourage even more reckless lending by international creditors and investors and irresponsible economic policy choices by developing country governments.

Economic liberals slowly moved towards a consensus regarding the proper policy response. First, continue with financial liberalization, perhaps slowing its pace (or "sequencing reforms") in order to ease the transition costs by allowing stronger prudential regulation, improved transparency in accounting, and other domestic regulatory reforms to be put in place before permitting neophyte local firms and banks to borrow abroad.[24] Second, for the poorest countries, such as those in sub-Saharan Africa, additional foreign grant assistance, and perhaps even forgiveness of external debt to the international financial institutions and bilateral official donors, might be morally appropriate and would not undermine markets. Third, reduce moral hazard in the international political economy. This could be done by shrinking or abolishing the international financial institutions, and refocusing the rump IFIs on limited grant aid to the poorest, as recommended by the US Congressional study committee chaired by the prominent new classical economist Allan Meltzer (Bergsten 2002). Also helpful would be enhanced prudential regulation of rich country banks and other financial firms, as via the Basle I and Basle II capital adequacy requirements for banks, tightening listing requirements on the New York Stock Exchange, and generally making it more difficult for institutional investors to put capital at risk in emerging markets.[25]

d) US Dollar as Key Currency. A fourth contemporary issue of global financial governance probably is perceived more clearly by both economic liberals and economic realists than by liberal internationalists. This is the unique position of the United States as the world's current financial hegemon and key currency country: as of late 1999, 66.2 percent of official foreign exchange reserves of the world's central banks were US dollars or US Treasury securities (IMF 2000). In the past, economic liberals have tended not to worry about the central position of the US in the international monetary system, which they have viewed as appropriate, given the enormous productivity of the American economy. That the dollar should be the centerpiece of the global financial system appears natural and market-ordained.

Yet economic liberals worry profoundly about the global payments position of the US. The macroeconomic strength ("competitiveness") of the US economy in the early twenty-first century is eroding, as attested by large secular shifts in the US balance of payments. The US today now has virtually every type of balance of payments deficit. It has had a merchandise trade deficit since about 1971, a deficit on the full trade account (including not only the merchandise trade balance but also trade in services, or "invisibles") since about 1981, and a deficit on the current account (comprised of the full trade balance, net foreign investment earnings, the balance of foreign private remittances, and a few minor items) since 1991. In 1998 the US balance of overseas investment earnings (interest, repatriated profits, and dividends) became negative for the first time since the Second World War. By 2003, the stock of foreign-owned assets in the US exceeded the stock of US-owned assets abroad.[26] Thus, although the US financial sector makes enormous profits from its investments around the world, and has grown faster than

the rest of the American economy since the early 1990s, the US is a large net importer of capital and has been so for fifteen years.

Thus far the American government has been able to deficit spend without much penalty in the market. Moreover, American interest rates are very low, despite high levels of consumer as well as public debt, and extremely low household savings of less than 5 percent of GDP. However, the share of US Treasury debt held by foreigners, mostly Asian central banks, has risen from about 20 percent in the early 1980s, to 40 percent in the early 1990s, to over 50 percent in 2004.[27] The US has performed the hegemon's role of serving as the world's "market of last resort," or the engine of growth for large economies with persistent large trade surpluses, such as China and Japan. Many economic liberals point out that these imbalances cannot persist indefinitely. Since late 2004, the international financial press has reported persistent rumors of large sales of dollar-denominated official reserves by foreign central banks, many of whom, especially in East Asia, increased their holdings of dollar assets in the wake of the Asian financial crisis. Economic liberals would like to see American "economic fundamentals" improve, lest a sudden and rapid depreciation of the dollar impose severe adjustment and transition costs on both the US and global economies.

This summary has suggested that economic liberals believe that international economic relations are principally about market-determined exchanges. While they may feel empathy for those punished by sudden shifts in relative prices, such as residents of East Asian countries hit by the late twentieth century financial tsunami, they contend that further international financial liberalization is part of the solution, and certainly not the origin of the problem. Economic liberalism is, moreover, an intellectually consistent (if not thereby necessarily a "true" or proven) position, prompting IMF economists, for example, to present the government of the US with a annual written report—as mandated by the Fund charter—scolding the US for its macroeconomic profligacy and warning of dire consequences.

Table 4--Mental Models of Global Financial Governance

	Economic Liberals	**Liberal Institutionalists**	**Economic Realists**
Capital account liberalization	Efficiency-enhancing	Good, but global oversight needed	Driven by Wall St. Spurs volatility
Trade in financial services	Efficiency-enhancing	Efficiency-enhancing	Kicking away the ladder
Causes of Asian financial crisis	Crony capitalism IMF moral hazard	Poor sequencing Contagion	Contagion IMF rigidity
US dollar as key currency	Natural & market-ordained US global payments imbalance is worrisome	Necessary Largely oblivious to US global payments imbalance	Dollar hegemony ordained by power US payments deficit is unjust

Liberal Institutionalists and Global Financial Governance

A second, markedly different, framing for understanding the relationship of global financial governance and interstate inequality is that of the liberal institutionalists, like the economic liberals represented both in the academy and among national policymakers and transnational civil servants. For liberal institutionalists, the international political economy is about governance and cooperation. International regimes exist because they enable states, and to a greater or lesser degree other non-state actors, to solve problems of collective action by sharing information, reducing uncertainty, and promoting shared norms. Liberal institutionalists recognize that the economics of global financial markets are contested (Kirshner, ed. 2003; Best 2003; Roubini and Setser 2004; Eichengreen 1999). This confirms their beliefs that the core challenges of international finance are ones of *governance,* in the sense of bringing interested parties together to attempt to bargain over economically viable and politically legitimate solutions.

Liberal institutionalists disagree with the economic liberals' characterization of the Bretton Woods regime as passive or minimalist, pointing to the interwar breakdown of trade and payments in the absence of a consensual regime, and the hard bargaining among the core states that produced the formal postwar agreement that formed the basis for international monetary relations for the next three decades (Eichengreen 1998; Helleiner 1994; Pauly 1997). Liberal institutionalists recognize and value the role of international and national regulations in enabling financial markets to function. For example, scholars in this tradition have reminded us that the essence of the postwar international monetary regime was controls on international capital movements. Most of Western Europe maintained capital controls even on current account transactions (that is, they rationed even the foreign exchange used to purchase otherwise permitted merchandise imports) until 1959, while Japan kept them until 1971.[28] Full capital account liberalization among the advanced industrial countries followed even more slowly. Canada, Germany, Switzerland, and the US removed capital account controls (that is, dismantled barriers to free international financial flows unrelated to trade or investment remittances) in 1973-1974, Britain and Japan in 1979-1980, and France, Italy, Spain, and Portugal in 1990-92 (Eatwell and Taylor 2002:3). These were of course *national* decisions. Nonetheless, the major country governments regularly met and bargained with one another through the Group of Seven (G7) quarterly reunions of finance ministers and central bankers inaugurated under the auspices of the Swiss-based Bank for International Settlements (BIS) in the mid 1970s, following the breakdown of the postwar quasi-fixed exchange rate regime (Kapstein 1994; Bergsten and Henning 1996; Cohen 1998: Kenen, Shafer, Wicks, and Wyplosz 2004). It is hard, from within this perspective, to deny the existence of a de facto, and even moderately interventionist, global financial governing regime. Many liberal institutionalists would go further, arguing that sustained interstate economic cooperation has been more likely in the presence of a global monetary hegemon: the US in the half century following the Second World War (Kindleberger 1973; Keohane 1984:31-46; Gilpin 1987:72-80; Mandelbaum 2002:88-95 and passim). A crucial component of this mental model is the belief that the liberal economic order has been in most respects a "public good," providing non-excludable benefits for all. Naturally, a hegemon might bias the rules towards serving its own needs first, which would diminish but not erase the net collective benefits of the regime (Brawley 1999; Pauly 1997).

a) Capital Account Liberalization. Many academic liberal institutionalists based in the United States became sensitized to the asymmetrical riskiness of capital account liberalization as a result of the Mexican/Latin American and then Asian financial crises (for example, Kahler, ed. 1998; Armijo 1999, 2002). Liberal institutionalists consequently have provided a rapt audience for the critiques of fully open capital accounts, especially those coming from prominent policy-oriented economists with solid credentials as economic liberals, including Jagdish Bhagwati (1999) and John Williamson (2003), as well as those more often identified as being critical, such as Dani Rodrik (1998), John Eatwell and Lance Taylor (2001), or Joseph Stiglitz (2002).

Nonetheless, the implicit reform model of many liberal institutionalists in the international policy community rests on greater democracy—or at least incrementally expanded participation. They are sympathetic to the economic efficiency arguments for liberalizing international capital flows and FDI in financial services, but believe that capitalism needs to be tamed by democracy and regulation (Cerny, ed. 1995; Germain 1997; Underhill and Zhang, eds. 2003; Porter and Wood 2002). Liberal institutionalists thus welcome organizations like the Financial Stability Forum (FSF) which was founded in the aftermath of the Asian financial crisis at a G7 meeting on February 20, 1999. The FSF has attempts to promote international financial stability by disseminating information and enhancing cooperation in financial supervision and surveillance The FSF has identified 12 financial subject areas where it has encouraged designated international organizations to develop international standards (FSF 2001). While compliance with these standards is voluntary, the FSF has spent considerable effort developing incentives to encourage compliance (FSF 2000). It has urged the IMF and World Bank to write Reports on Observance of Standards and Codes (ROSCs) for developing countries. The FSF has suggested that membership in international organizations could be conditioned upon the adoption of relevant standards. It provides private international investors with information on the extent to which countries have met its standards. The FSF also advises national authorities to take account of a country's observance of relevant standards when deciding whether to permit institutions from that country to operate in its markets or to allow its domestic institutions or subsidiaries to operate in foreign jurisdictions.

On the whole, liberal institutionalists see a valuable learning process, leading to improved regulation and mutual gains, occurring via a thick network of transnational and intergovernmental negotiations and exchanges. If most IMF economists are clear economic liberals, World Bank President James Wolfensohn has been the outstanding liberal institutionalist among practitioners of global financial governance, inaugurating a panoply of consultative and participatory fora in concentric circles around the Bank, and not infrequently braving the derision of both economic liberals and economic realists in the process (Pincus and Winters, eds. 2002; Mallaby 2004). Liberal institutionalists have applauded both the meetings of national political leaders and CEOs at the annual World Economic Forum in Davos—and the anti-Davos World Social Forum begun in 1999 in Pôrto Alegre, Brazil.

b) Trade in Financial Services. Scholars and policymakers based in Europe have long been more attuned to distributional issues associated with trade in financial services, since their own banks, insurance, and investment firms have been shaken by direct and portfolio investment by multinational banks and foreign institutional investors, often from the US. One impetus behind the creation of the European Monetary Union was to create a single European market in financial services that would give a competitive edge to its members' domestic service industry firms. However, it has been comparatively unusual for liberal institutionalist scholars to challenge the basic assumption that increased trade in financial, or other, services is efficiency-enhancing, as their principal focus has been on problems of coordination and optimal design (Porter 2003).

c) the Asian Financial Crisis. Few contemporary liberal institutionalists are comfortable opposing "pro-market" reforms in national economic regulatory frameworks, and are careful to dissociate themselves from the *dirigiste* yearnings discernible in some analyses of the social justice economic realists. Not wishing to blame the victims of the Asian financial crisis either, many liberal institutionalists have found comfort in the thesis that the source of the problem was neither too much nor too little capital account liberalization, *per se*, but instead naïve mismanagement of the process of external financial opening, and particularly an *inadequate sequencing* of specific market-oriented reforms. By this logic, strengthening and liberalization of the domestic retail banking sector, along with more transparent bank supervision, should have preceded capital account opening, to protect inexperienced private bankers in developing countries from making foolish mistakes that later would imperil the entire national economy. In other words, the problem is one that may be addressed by learning and improved national and international economic governance in the future. This has been, in essence, the response of the World Bank and the Organization of Economic Co-operation and Development (OECD) to the recent financial—and social--havoc in East Asia.

Yet many liberal institutionalists also are sympathetic to the neo-Keynesian arguments that stress, instead, the importance of international financial "contagion," or the way in which decentralized investors in global markets unintentionally may spread crises from one "emerging market" country to another (Stiglitz 2002). Notable in this view is the assertion that the lack of adequate global financial oversight, or the need for better international financial sector cooperation, is an important source of disruptive financal volatility. We discuss this thesis further below.

In the wake of devastating financial crises in developing countries, liberal institutionalists have proposed reforms in corporate governance within hard hit countries (as in Haggard 2000; Pempel 1999), and have schemed to broaden representation of poor countries in high level international and transnational commissions. It has been comparatively easy to reach agreement on the desirability of greater "transparency," by which advocates mean more timely and complete reporting of financial information on both companies and countries, enabling investors to make better-informed decisions.[29] Some have suggested clearer and more transparent rules for the internal governance of the International Monetary Fund and World Bank as well (Woods 2000; for a critique, see Best 2003). Liberal institutionalists support market-oriented regulatory changes in developing countries as defined by the "new Washington Consensus" and incremental improvements in the technology of global financial regulation such as "bail-in" clauses for investors in international corporate bonds (Roubini and Setser 2004).

d) The US Dollar as the Global Key Currency. Curiously, most liberal institutionalist scholars within academic political science, and even national and international policymakers operating from within this mental model, thus far have been relatively inattentive to the eroding international monetary position of the US, on which its continued world financial leadership presumably ultimately rests. As noted above, many liberal institutionalists are comfortable with the thesis that global economic stability and security has been largely a result of the peace and prosperity ensured by the

US in the postwar era. Within this mental framework, it seems natural and necessary that the dollar should have remained the world's dominant currency for so long—though not without the US reaping advantages (cf. Cohen 1998, 2003). Liberal institutionalists, for the most part, are thus less bothered over looming global payments imbalances than either the economic liberals or the economic realists. Instead, they have focused their reform efforts on attaining greater transparency in global financial contracts, reforms in the domestic economic governance regimes of emerging market countries, and incremental changes in the routines of global financial governance.

Economic Realists and Global Financial Governance

The third mental model through which analysts filter the "facts" about global finance and inequality across nation-states in the IPE is that of the economic realists, and particularly that subset acutely concerned with the circumstances of developing countries, whom we term social justice realists. Their model of international economic exchanges and global regimes highlights *power* and relative gains. They are less likely than analysts whose worldviews are consistent with the two other analytical frameworks discussed to attribute the incidence of economic disaster to failures of the victims, and more likely to find causes in institutions and structural relations reflecting power asymmetries. Because of the centrality of power to their worldview, economic realists are less hopeful than many liberal institutionalists—particularly the new celebrants of transnationalism—that planned reforms in global financial governance will meaningfully include or benefit representatives of less powerful states. Social justice realists point out that senior economic officials in the hegemonic country(ies) have the capacity to influence outcomes—but typically are unwilling to interfere with "the workings of the market" to succor poor countries who suffer differentially. However, if the citizens of the US or another major industrial power ever were to experience the macroeconomic havoc typical of recent financial crises in developing countries, they note, we may be certain that dramatic actions to reform cooperative global financial governance would follow swiftly.

Economic realists agree with liberal institutionalists that the postwar financial order has been sustained by conscious core state leadership. They would term this hegemonic dominance rather than the provision of public goods, however, pointing to the degree to which the United States in particular has skewed the system to meet its own needs (Block 1977; Tabb 2004; Wade 2003b). Realists attend to both the outcomes of global financial governance, which they see as *prima facie* evidence of costs imposed on already poor countries, while the benefits accrue to core states, and the bargaining processes and institutions at the center of the regime. Thus, Robert Gilpin (2000:50) contends that the post World War II international economic order "reflected to a considerable degree the political, economic and security interests of the United States and its allies." When domestic inflation and increasing international capital mobility threatened to impose deflationary measures on the US under the system of fixed exchange rates, the US unilaterally replaced the system with one based on flexible exchange rates, shifting much of the burden to other countries in the process.

Moreover, many social justice realists see lobbying by private financial capital as the most important source for the perspective and preferences of the US Treasury and other government officials who take the lead in de facto global financial governance. The revolution in international finance driven by the expansion of the Eurodollar market, the foreign expansion of American banks, the development of new communications technologies, the innovation of new financial products, especially various financial derivatives, and the recycling of huge OPEC financial surpluses, promoted the development of global financial markets and placed the United States in driver's seat in developing its global governance. William Tabb (2004) sees structural changes like the revolution in international financial markets as creating a class of international capitalists who play an increasingly influential role in the development of global financial governance. He views the proliferation of dense global networks of transnational and sub-state (bureaucratic) actors with a much more jaundiced eye than the sometimes breathless new transnationalists. Led by private sector firms with growing international interests, these networks, in Tabb's view, produce "club" not public goods, whose traits are determined by those who establish the club and whose selective distribution can be utilized as an incentive to secure conformity of actors outside the club.

a) Capital Account Liberalization.

Social justice economic realists argue that capital account liberalization in the post-Bretton Woods system has had detrimental consequences for many developing countries' economic development and security. By terminating restrictions on international capital and currency flows, the new system curtailed the capacity of states to implement counter-cyclical macroeconomic policy to protect their societies from the instability created by markets (Kirshner 2003b; Wade 2000:145). As noted above, the incidence of financial crises has been higher since the mid 1970s end of the Bretton Woods regime of mostly fixed exchange rates among the major economies, and especially so with the increases in short-term cross-border flows of recent years. Such crises have fallen most heavily on the developing economies, arguably due to the lesser ability of the governments of poorer countries to borrow during downturns in the business cycle or during liquidity crises, even those due to exogenous factors (Wibbels 2005). Moreover, and more insidiously, the institutions of global monetary governance, and especially the International Monetary Fund, gradually have drifted away from their original priority of guaranteeing financial stability in the world system to the different goal of facilitating private international capital flows, including by pressuring developing country governments to reconstitute their national economic regulatory environments to make them safe for private capital (Vreeland 2003). More fundamentally if more controversially, neo-Keynesian economists and political economists have convincingly argued that capital account liberalization imposes a global deflationary bias to policymaking everywhere (Tabb 2004; Kirshner 2003b; Wade 2003b; Felix 1999; Rodrik 1997).

Moreover, the new financial volatility serves the interests of private financial capital. Countries with advanced financial service sectors, especially the United States, have promoted capital account liberalization to advance the interests of their financial sectors (Blyth 2003; Kirshner 2003a). Lawrence Summers, then deputy secretary of the

US Department of Treasury, declared, "Financial liberalization, both domestically and internationally, is a critical part of the US agenda" (Kapur 1998). Private financial interests, especially in the US, have devoted enormous resources to arguing the case that external capital liberalization is necessary, inevitable, and efficient.[30] Largely as a consequence of its enhanced international role, the share of the financial services sector in the US economy grew from under 6 percent in 1990 to 8.3 percent in 2000, expanding at an average annual rate of 3.2 percent over the decade, as compared to 1.8 percent for US GDP as a whole.[31] Indeed, even an economic liberal like Jagdish Bhagwati (1998) has criticized the preponderant influence of the "Wall Street-Treasury complex" over the IMF and World Bank. Social justice realists argue that capital account liberalization represents the classic political economy problem in which a particular policy would strongly benefit a concentrated interest (private financial capital), while imposing potentially large costs and risks on the poorly informed general population, members of which nonetheless have few incentives, as individuals, to devote energy and resources to opposing the policy shifts because of the costs of organization (Helleiner 1994:final chapter).

Finally, economic realists concerned with equity for developing countries note that the current global financial architecture is so structured as to give priority to a) bailing out the major private financial institutions of the North, and b) protecting the domestic economies of the core advanced industrial countries, in other words to maintaining what John Ruggie (1982) once called the "compromise of embedded liberalism" for the world's "North." The current global financial architecture does *not* give priority to c) protecting domestic incomes and macroeconomic stability in the global "South" (Blecker 1999). That is, the compromise of embedded liberalism has *not* yet been extended to developing countries (see Armijo 2002:36-42 and passim).

b) Trade in Financial Services. Though liberalized "trade" in financial services probably has received less public and academic press than capital account liberalization, its implications are perhaps even more radical. Those whose mental model is that of economic realism perhaps are best equipped to perceive this. The Fund and to a lesser extent the World Bank insist that developing countries run fiscal and balance of payments surpluses and privatize state firms, including banks, which are frequently fully or partially insolvent, often because they have been obliged to lend cheaply to the government or to well-connected friends of the incumbent. Yet the major push of the US through the WTO at present is for developing countries to remove barriers to entry by foreign banks, insurance firms, and other financial businesses (Crystal 2003). The World Bank and OECD actively promote "corporate governance reform," which often seems to imply adopting Anglo-American style capital markets regulation (cf. Oman 2003). Together these commitments mean that developing country states are being asked to permanently forswear the levers of even modestly interventionist national economic governance that today's advanced industrial countries almost universally employed during the period when they were industrializing. Ha-Joon Chang (2002) terms this a policy of "kicking away the ladder." For example, Britain's economic and financial hegemony long rested on conscious state manipulation of the levers of financial power, nationally and internationally (Carruthers 1999; De Cecco 1974). In fact, virtually all of

today's industrial core economies once were large, chronic debtor states, often given to defaults on their foreign, and sometimes also their domestic, debts (Macdonald 2003). They manipulated their banking systems, seeking what in today's lexicon is called "strategic comparative advantage" (Gershenkron 1962; Cameron 1967). Public control of significant chunks of the financial system, directly through ownership or indirectly through the regulatory and tax frameworks, persists in advanced industrial countries today. Scholars of the political economy of advanced industrial countries investigate the "comparative institutional advantage" of "liberal market economies" such as that of the US, as compared to the "organized market economies" more common in continental Europe and Scandinavia (Hall and Soskice 2001).

In fact, those who are attuned to unequal power relations and relative gains perceive a significant double standard in the rigidity of the economic reforms that the present system of international financial governance enforces in developing countries, versus those the advanced industrial democracies accept for themselves.[32] Japan's enormous Postal Savings System, which until recently received 70 percent of the public's savings deposits, remains in the public sector--though probably not for much longer.[33] Meanwhile, the IMF and World Bank impose wholesale privatization and other neoliberal policies of the "Washington consensus" on developing countries, policies that, according to James Raymond Vreeland (2003), hurt economic growth and worsen income distribution. There are reasons to believe that multinational banks and other financial firms headquartered in the advanced industrial economies hold stronger pro-price-stability views than their counterparts among private bankers in most developing countries. Once these foreign banks become domestic business constituents of developing country governments, they may thus further constrain local public policy options.

c*) The Asian Financial Crisis.*

Economic realists contend that the focus of economic liberal explanations on domestic problems of the Asian financial crisis greatly understate the importance of international factors (Stiglitz 2002). They are particularly critical of the manner in which financial globalization has been shaped to benefit American interests. Furthermore, they contend that the policy remedies proposed by the United States and international financial institutions like the IMF are a thinly veiled attack on the highly successful East Asian economic model. Robert Wade (2003d, xxiii) points out a revealing asymmetry in the liberal economists' position. On the one hand they attribute the success of East Asian countries to their integration with the global economy while they neglect the role of domestic institutions. On the other hand, they blame the domestic institutions of the East Asian countries for the financial crises while neglecting the role of international factors. Wade argues that the manner in which the domestic institutions of the Asian countries contributed to the crisis can only be understood in the context of international factors. In particular, pressures from the United States and international financial institutions on Asian countries to liberalize their capital account altered a key element of the East Asian model and made them vulnerable to the downside of financial globalization. The United States persistent external deficits increased the foreign reserves of East Asian countries which contributed to a credit boom in those countries that promoted asset inflation and

industrial overcapacity. Once external capital controls were gone, and in the context of an increase in net private capital flows to emerging markets from $170 billion in 1994 to $328 billion in 1996. (Wade 2003d, xxviii), private firms took out large, and at the prevailing exchange rate, cheap foreign loans, which often were inappropriately invested in long-term projects. In the spring of 1997, foreign investors realized that the boom could not be sustained and "pulled the plug."

Was the crisis then primarily a result of improper sequencing, in which capital account liberalization would have been safe and beneficial if only domestic financial regulators in East Asia had first improved the national financial regulatory framework, and been more vigilant in preventing egregious mismatches of short-term liabilities and long-term assets, or of foreign exchange liabilities and local currency earnings? Economic realists note that no country's policies ever are perfect, but that the global financial system has been managed in such a way as to offer certain constituents, such as transnational banks and investors, better protection from the consequences of their mistakes than others, including the general population within poor countries (Stiglitz 2002; Tabb 2004). Thus, the United States and the IMF pushed for continued capital account liberalization in 1998 and 1999 despite the example of Malaysia, which suggested that the imposition of capital controls might contribute to economic revival with less disruption (Cohen 1999). They used the increased political leverage that the crises created to pressure for liberalization in areas unrelated to the direct causes of the crisis. As had happened during previous financial crashes in Latin America, Western interests took advantage of the crisis to purchase Asian firms at bargain-basement prices. The proposed reforms to the global financial architecture following the Asian financial crisis that made most headway were those that addressed developed country fears of taxpayer-funded bailouts and financial contagion spreading to the North, not those that might respond to concerns in the global South, such as maintaining access to world capital markets (Hausmann and Fernandez-Arias 2002). The United States attempted to quash proposals to create an "Asian Monetary Fund" because it might undercut the power of the IMF and support the Asian economic model (Laurence 2002; Corden 2001:59; Gilpin 2000:157:159). Moreover, the West pushed reforms promoting greater transparency in Asian countries as the key remedy for the crisis. At the same time, the United States, when confronted with the problems created by highly leveraged hedge funds like Long Term Capital Management, refused to implement reforms that would increase transparency (Wade 2000:149-150).

d) US Dollar as the Global Key Currency. The final, though not unexpected, irony for economic realists is that the hegemonic country in the global financial system, the United States, is not itself subject to the same market discipline its policymakers recommend abroad. The US has been remarkably free to run budget and balance of payments deficits, so long as investors trust that other investors will continue to demand dollars and US Treasury securities, thus insulating American macroeconomic outcomes from the country's comparatively profligate fiscal and monetary policy choices.

At the same time, the growing financial volatility and contagion characteristic of the evolution of financial globalization at the beginning of the new millennium has

obliged developing countries to accumulate unprecedented foreign reserves in an effort to protect themselves from the risk. Developing countries in the aggregate increased their reserves by $292 billion in 2003 and by $378 billion in 2004. Though Asian countries accounted for the largest concentration of reserves, the trend was widespread. One hundred and one of 132 developing countries accumulated reserves in 2004 (World Bank 2005:2). A large share invested in US treasury bonds. Economic realists point out that the costs of sterilizing these reserves so they don't cause inflation at home, plus the interest rate losses created by the difference between the lower rates paid by the US government for the use of these foreign reserves and the higher rates that would be available to developing country central banks in their own domestic markets represent a risk premium that developing countries, in effect, transfer to developed countries in order to insulate themselves from the volatility of global financial markets (UNCTAD 2004:ii).

Conclusions: Mental Models, Global Economic Governance, and Interstate Inequality

This essay has examined the evolution of global economic governance in the context of inequalities among nation-states. Our principal finding is that the different analytical frameworks of the global political economy powerfully structure our thinking, highlighting different aspects of global economic governance. Scholars and policymakers generally adopt one of these analytical perspectives. In so doing they miss out on a range of insights. We close by assessing the contributions of each competing analytical frame into the relationships between the global governance of trade and finance and interstate inequality.

Economic liberals place markets at the center of their analysis and give analytical priority to achieving efficiency. For them equity defined in terms of Pareto optimality takes precedence over ameliorating interstate inequality. Efficiency and equity are achieved by maximizing market autonomy from authoritative interventions. Inefficiency and inequity are primarily a consequence of political interests – usually those of political, economic or bureaucratic elites – intervening to distort market institutions or support state interventions that interfere with the proper functioning of the market. Thus, while economic liberals such as Martin Wolf (2004) are sympathetic to the harm done to developing countries by, for example, the protectionist trade policies of the advanced capitalist democracies, they would argue that a refusal of developing countries to liberalize their manufacturing or services sectors simply makes a bad situation worse. Because economic liberals see foreign direct investment purely in macroeconomic terms, they strongly support the goal of providing a "level playing field" for both foreign and national capitalists. Within this mental model, developing countries can minimize the downside risks of international economic and financial integration by implementing pro-market economic regulatory reforms at home. The formal institutions of global economic governance, such as the World Bank and International Monetary Fund, thus ought to give their greatest efforts to encouraging domestic economic reform within the developing countries themselves. The IMF, in particular, ought not to be the lender of last resort, but a fount of sound advice. Interestingly, it is intellectually consistent economic liberals

who are perhaps the most worried about the medium and long-term implications of the US' domestic fiscal and international payments imbalances, which they view as extremely dangerous for global economic stability—and, thus, of course for poor countries most of all.

Though economic liberals have contributed many insights to our understanding of global economic governance, we find that the perspective has at least one major shortcoming in matters of international political economy. This is especially important to note in light of the fact that the economic liberals are the most influential analytical perspective in terms of public policy. The problem lies in the fact that economic liberals conceptualize markets as being analytically distinct from political processes. We think that the development of global markets in trade and finance is intrinsically linked to politics. Virtually all economic institutions and policy decisions have distributional consequences and are therefore inevitably political. Our point is not that economic liberals completely ignore politics, but rather that they see politics almost exclusively as deleterious intrusions into markets. Consequently, they underestimate the positive contributions that politics makes to the development of market institutions and to the resolution of the problems of economic governance.

Liberal institutionalists and economic realists offer many analytical insights into how global economic dynamics are shaped by social and political processes and the inequalities that they encompass. Liberal institutionalists highlight the importance of international institutions in the process of global economic governance. In their view, international institutions play an essential role in resolving global economic governance problems by providing information, reducing uncertainty, and promoting shared norms. Consequently, the analysis of liberal institutionalists has focused on the role of the GATT and WTO in overcoming the problems that confront the governance of international trade, and they highlight the importance of the IMF, Bank of International Settlements, Financial Stability Forum, etc. in resolving the problems of global finance. This frame emphasizes that rich and poor countries face common challenges which can best be surmounted through shared international institutions. The evolution of the GATT and WTO has been central to developing the global trade regime in a mutually beneficial manner, and liberal institutionalists highlight the encompassing nature of these institutions and incremental gains achieved by developing countries through their participation in them. The new transnationalists are optimistic that international institutions will alleviate the problems of inequality, especially if the South can act as a unified bloc in conjunction with sympathetic NGOs. International institutions play an important role in the development of global finance. Like economic liberals, liberal institutionalists tend to believe in the general efficiency of global financial markets, but they allot a more important role for international institutions in addressing the crises that have arisen. The IMF should play an active role in organizing packages that include reforms as well as financial rescue. Together with institutions like the Financial Stability Forum, international institutions should cooperate to promote norms of transparency that will minimize the risk of future crises and promote the success of capital account liberalization.

In contrast to the other perspectives, international inequalities are endogenous to the analysis of economic realists. States act to maximize relative gains, and powerful states utilize their power to fashion international institutions and global markets to reproduce their dominance. In contrast to economic liberals and liberal institutionalists who view markets as institutions that translate the pursuit of individual interests into collective benefits, economic realists -- particularly social justice realists -- see them as structures of power that, if they do not directly impoverish poor countries, frequently work to their relative disadvantage. In the context of great technological change and structural shifts in the economy, the industrial core countries have maintained their dominance by using forum shifting, agenda control, and their market power to minimize concessions in agriculture (which would be socially disruptive in the North), impose a favorable system of intellectual property rights, and constrain developing countries from employing many of the same developmental strategies that they themselves utilized to accelerate their economic development.

Social justice realists are less hopeful than liberal institutionalists that poor countries gradually are being represented in global financial governance. They recall that the US Treasury Secretary, in furious consultation with the finance ministers and central bankers of the G-7, responded to acute and spreading financial crises in emerging markets in the very late twentieth century by mobilizing extraordinary resources to protect the core financial institutions of the North, while pushing excessively painful adjustment costs—and the entire moral onus—onto the developing countries and their populations. Economic realists highlight how the global financial regime has been fashioned to enhance welfare in the United States while increasing the frequency of financial crises and obliging developing countries to in effect transfer billions of dollars to the United States through immense increases in their foreign exchange reserves in order to insulate themselves from financial turbulence.

One reason that it is important to consider the insights of all of these analytical perspectives is that global economic governance differs by sector and the distinctive insights of each perspective helps to understand these differences. Analysts as diverse as Jagdish Bhagwati, Charles Kindleberger, and Robert Wade arrived at the realization that markets for global trade and finance are substantially different in that financial markets have a greater propensity for "panics and manias." Just as importantly, the international institutions that oversee global economic governance differ in these two sectors. The authority of global economic governance in the trade regime is more concentrated in the WTO which provides developing countries with the opportunity for more equitable participation. Authority in the global governance in finance is more fragmented, informal, and exclusive allowing fewer opportunities for developing country input into the resolution of problems in this sector.

The insights into market dynamics provided by economic liberals will always be valuable even though they are less useful in understanding how markets evolve over time. Liberal institutionalists and economic realists each provide incisive insights into the historical development of global economic governance. International institutions and the opportunities for agency that they provide constitute an important dynamic in global

economic governance--as do the constraints presented by the asymmetries of power embedded in economic, social and institutional structures. Alleviating the problems presented by international inequality requires keen assessment of the limits imposed by economic, social, and institutional structures before fashioning strategies to take optimal advantage of the possibilities that they present for equitable change.

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Notes

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[2]Accessible short summaries of the essential arguments of new classical economics with respect to financial markets are in Best 2003, especially pp. 130-131; Felix 1999, especially pp. 127-136; and Kirshner, 2003.

[3] Joseph Stiglitz and George Ackerloff have been recognized with Nobel Prizes in economics for their work in this area.

[4] The levels are states, international organizations, non-governmental organizations (including both civil society advocacy organizations and transnational corporations), and transnational policy networks.

[5] Between the mid 1980s and 2001, the annual average of the overseas sales of transnational corporations based in the US was about 2.5 times (250 percent) that of US exports (UNCTAD 2004b:98).

[6] Manufactures were only 22 percent of developing country exports in 1973, but over 62 percent in 1995 (WTO 1996).

[7] The top five recipients of inward FDI stock among developing countries, as of 2003, were China, Mexico, Singapore, Brazil, and Bermuda.

[8] As with trade liberalization, economic liberals have a difficult time conceiving of foreign direct investment as potentially predatory.

[9] For example, farmers may use generous payments for fallow land to cross-subsidize their other production.

[10] The information in this paragraph is from Sell 2003:139-153.

[11] India supported the resistance to the Singapore issues. See "Gains of Cancun," *Economic and Political Weekly* 38.39 (September 27, 2003).

[12] See Alan Beattie, "Top of the Crops: Brazil's Huge Heartland is Yielding Farms that Can Feed the World," *Financial Times,* June 23, 2005.

[13] "The Monday Interview: Pascal Lamy: 'Developing countries must feel that they own the (WTO) system," *Financial Express* March 7, 2005.

[14] To assist developing countries, the WTO secretariat offers two attorneys on a part-time basis. In an effort to respond to the unmet demand, a coalition of countries have recently formed the Advisory Centre on WTO Law funded primarily by seven EU members, plus Canada and Norway. Notably absent are the United Sates, Japan, Germany and France.

[15] The US participated in 97 percent of all cases as a party to a dispute or as a third party. The EU participated in 82 percent of the cases (Shaffer 2003: p. ?)

[16] The term "monoeconomics" comes from Hirschman 1981.

[17] The account in this paragraph is taken from Susan K. Sell, *Private Power, Public Law*, pp. 60-74.

[18] *Economist,* "The Sword and the Shield," September 12, 2003. Consulted on-line.

[19] In the 1980s the main target of such fears was Japan; in the first decade of the 21st century it has been China. See Richard W. Stevenson, "In Unocal Bid, U.S. Struggles on China Plan," *New York Times,* June 26, 2005.

[20] Much of the discussion in the literature concerns fears of a "race to the bottom" as politicians in ostensibly interchangeable locations competed with one another to offer ever-larger concessions to businesses. But policymakers in desirable locations also can exact concessions *from* capitalist firms.

[21] These views are summarized in Bhagwati 1998 and Kirshner 2003.

[22] The principal exceptions would have to do with dangerous or illegal goods, such as enriched uranium or heroin.

[23] More neutrally, one may distinguish between "relationship-based" financial regimes, on the one hand, and "rules-based" or "arms' length" financial regimes, on the other. The multilateral financial institutions have been firmly on the side of the latter.

[24] This has been the principal response of the IMF. See its website.

[25] Private transnational financial firms of course have not been enthusiastic about either of these reform trajectories.

[26] As of late 2003, Americans owned about $7.9 trillion in foreign assets such as direct investment, corporate and government securities, and foreign exchange deposits. Foreigners held $10.5 trillion of assets in the U.S. See Martin Wolf, "Adjusting to the Dollar's Inevitable Fall," *Financial Times,* November 23, 2004. The U.S. GDP in 2003 was about $11 trillion.

[27] An additional advantage for political incumbents in United States is that its overvalued exchange rate—a consequence of the seeming willingness of global investors to "finance" virtually any level of trade and current account deficits—means artificially cheap imports for consumers. On the other hand, it becomes more difficult for non-financial businesses in the tradables sector to be profitable. Comments on these outcomes would take us beyond the scope of the present discussion.

[28] Economic liberals, in contrast, acknowledge that numerous national controls on the current account existed, but conceptualize them as *deviations* from the underlying global financial regime.

[29] See in particular the proposals of the G22, summarized in Eichengreen 1999:130-132.

[30] Some of the most active private industry groups, whose membership is a Who's Who of transnational financial capital, include the Institute of International Finance, the Securities Industry Association, and the Financial Services Forum, the last cleverly named to sound like the official body, the Financial Stability Forum. Joint public-private bodies such as the Bank for International Settlements (BIS), the International Organization of Securities Commissions (IOSCO), and the Global Corporate Governance Forum (GCGF) also devote very substantial resources to educate and inform opinion leaders and politicians about the virtues of free global capital markets.

[31] "Why World Markets are Important to U.S. Financial Firms," New York: Securities Industry Association, March 2002, p. 3.

[32] Even the United States, whose national economic regulatory system today is closest to the laissez faire model promoted by economic liberals, retains executive branch political oversight of numerous levers of influence in the national economy through the Departments of Treasury, Commerce, and Agriculture.

Moreover, national firms continue to receive preferences in many types of government procurement, while foreign-headquartered MNCs are excluded from majority ownership in many “strategic” industries, including coastal shipping, domestic aviation, and many forms of media.

[33] In August 2005 Prime Minister Junichiro Koizumi resigned and called for new elections when the Diet, despite being controlled by members of his own Liberal Democratic Party, refused to go along with his plans to privatize the Postal Savings System.