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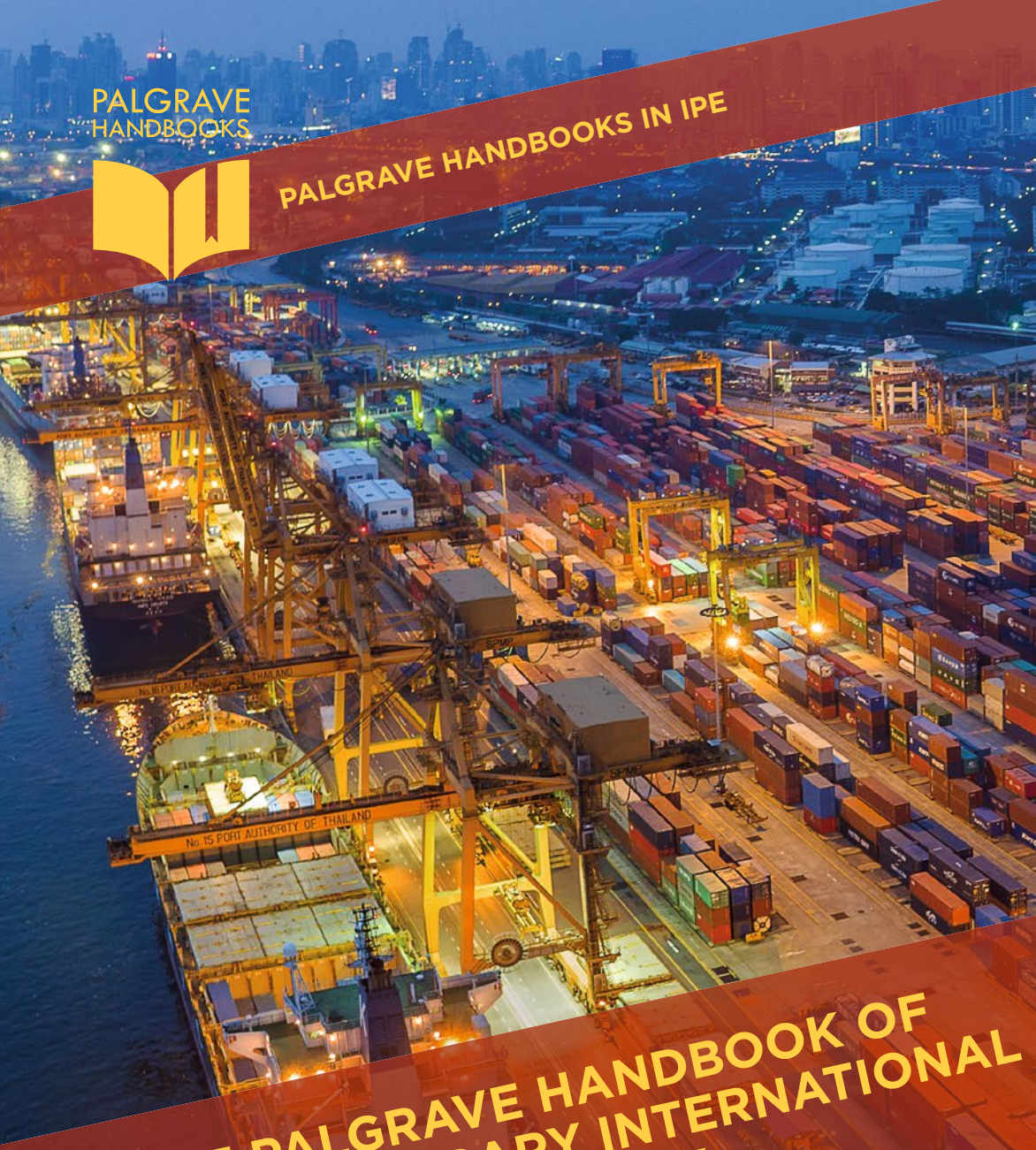

THE PALGRAVE HANDBOOK OF CONTEMPORARY INTERNATIONAL POLITICAL ECONOMY

Edited by
Timothy M. Shaw, Laura C. Mahrenbach,
Renu Modi and Xu Yi-chong

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The Palgrave Handbook of Contemporary International Political Economy

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In honour of Steen Fryba Christensen, whose innovative work in IPE demonstrated the value of scholarship bridging the Global North and Global South.

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List of Acronyms

ACP	African, Caribbean & Pacific (states affiliated with the EU)
ADB	Asian Development Bank
AfDB	African Development Bank
AI	Artificial intelligence
AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of South East Asian Nations
ASM	Artisanal & small-scale mining
BAT	Baidu, Alibaba, Tencent
BIC	Brazil, India, China
BIS	Bank for International Settlements
BRI	Belt & Road Initiative (China)
BRIC	Brazil, Russia, India, China
BRICS	Brazil, Russia, India, China, South Africa
CARICOM	Caribbean Community
CC	Comparative capitalism
CCC	Critical comparative capitalism
CDB	China Development Bank
CDM	Clean Development Mechanism
CIC	China Investment Corporation (SWF)
CIVETS	Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa
CME	Coordinated market economy
COP	Conference of the Parties (Paris climate accord)
CPE	Comparative political economy
CR	Concentration ratios
CSR	Corporate social responsibility
DRC	Democratic Republic of the Congo
ECB	European Central Bank
EEC	European Economic Community

EFL	Entrepreneurial Finance Lab
EIA	Environmental impact assessment
EITI	Extractive Industries Transparency Initiative
EM	Emerging market
EMDC	Emerging market & developing countries
EP	Emerging power
EPA	Economic Partnership Agreement (ACP with the EU)
EPZ	Export processing zone
ESG	Environmental, social & governance standards
EU	European Union
FAO	Food & Agriculture Organisation
FATF	Financial Action Task Force
FDI	Foreign direct investment
FFD	Financing for development
FIFA	Federation International de Football Association
FS	Financial statecraft
FSF/B	Financial Stability Forum/Board
G8/7	Group of 8/7
G20	Group of 20
GAPP	Generally accepted principles & practices
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs & Trade
GEG	Global economic governance
GFC	Global financial crisis
GHG	Global health governance
GHG/s	Greenhouse gases (emissions)
GVC	Global value chain
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction & Development
ICC	International Chamber of Commerce
ICT	Information & communication technology
IG	Internet gambling
ILO	International Labour Organization
IMF	International Monetary Fund
IOC	International Olympic Committee
IOM	International Organization for Migration
IoT	Internet of things
IPE	International political economy
KP	Kyoto Protocol (on climate change)
KPCS	Kimberley Process Certification Scheme
LDC	Least developed country

LGBTQ	Lesbian Gay Bisexual Transgender Queer/Questioning
LLR	Lender of last resort
LME	Liberal market economy
LMICs	Low- & middle-income countries
MDGs	Millennium Development Goals
MENA	Middle East & North Africa
MERCOSUR	Common Market of South America
MIKTA	Mexico, Indonesia, South Korea, Turkey, Australia
MINT	Mexico, Indonesia, Nigeria, Turkey
MIST	Mexico, Indonesia, South Korea, Turkey
MNC	Multinational corporation
MSC	Marine Stewardship Council
MSCI	Morgan Stanley Capital International
MSI	Multi-stakeholder initiative
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organisation
NCD	Non-communicable disease
NEPAD	New Programme for Africa's Development
NFL	National Football League (US)
NGO	Non-governmental organization
NIEO	New International Economic Order
NIIP	Net international investment position
NOC	National oil company
NTB	Non-tariff barrier
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation & Development
OECS	Organisation of Eastern Caribbean States
OFC	Offshore Financial Centre
OPEC	Organization of the Petroleum Exporting Countries
PBoC	People's Bank of China
PPP	Public-private partnership
PPP	Purchasing power parity
PTA	Preferential trade agreement
QE	Quantitative easing
RCEP	Regional Comprehensive Economic Partnership
REDD	(UN programme for) Reducing Emissions from Deforestation & Forest Degradation
REE	Rare earth element
RMB	Renminbi (or yuan) (currency of China)
SDGs	Sustainable Development Goals
SDR	Special Drawing Rights
SIDS	Small island developing states
SLDC	Small & least-developed country

SME	State-permeated market economy
SOE	State-owned enterprise
SSA	Sub-Saharan Africa
SSA	Social structures of accumulation
SWF	Sovereign Wealth Fund
TPP	Trans-Pacific Partnership
TRIP	Trade-related intellectual property (WTO)
TTC	Transnational tobacco company
TTIP	Transatlantic Trade & Investment Partnership
UAE	United Arab Emirates
UN	United Nations
UNASUR	Union of South American Nations
UNCLOS	UN Convention on the Law of the Sea
UNCTAD	UN Conference on Trade & Development
UNDP	UN Development Programme
UNEP	UN Environmental Programme
UNFCCC	UN Framework Convention on Climate Change
UNHCR	UN High Commission for Refugees
UNSC	UN Security Council
VARP	Vietnam, Argentina, Romania, Pakistan
VoC	Varieties of capitalism
WEF	Water-energy-food 'nexus'
WEF	World Economic Forum
WHO	World Health Organisation
WTO	World Trade Organisation

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1

Continuities and Change in IPE at the Start of the Twenty-first Century

Laura C. Mahrenbach and Timothy M. Shaw

Introduction

The middle of the second decade of the twenty-first century may turn out to be more of a turning point for the global political economy than anticipated when capitalism became virtually global at the end of the Cold War. Given contemporary nationalist and protectionist demands by Donald Trump's White House, Theresa May's Brexit countdown, and right-wing regimes in parts of the newer European Union (EU), any 'New Global Partnership' may be different than envisaged by the United Nations (UN; Puplampu et al.

Thanks go to Henk Overbeek and Richard Stubbs for their helpful comments on previous versions of this chapter. In addition, we would like to thank all the contributors to this handbook, without whose cooperation, insights, and flexibility we would not have been able to complete this project. Finally, we would like to thank all the IPE colleagues whose work we have cited—and those whose, for space restrictions, we unfortunately could not—for their contributions to this field. The wealth of good work in our field makes us happy and hopeful for its development in the coming years.

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2017). Frustrated with slow reforms, the BRICS countries (Brazil, Russia, India, China, South Africa) have created now-functioning economic governance institutions of their own, not just to meet needs insufficiently covered by existing institutions but also as a means of integrating their philosophies of development into the governance landscape (Chin 2014; Abdenur and Folly 2015). At the same time, massive migrations around the middle of the second decade, especially towards the EU, have been intensified by fears of religion-based terrorism. This has produced nationalist social movements united in their scepticism towards the compromises necessary to sustain existing political governance—or at least management—of the world economy. Moves such as President Trump's declaration that the United States (US) will withdraw from the Paris Climate Agreement and an intensifying US-China trade war add fuel to this fire.

The political uncertainty is bolstered further by the contradictory economic forces at work. On the one hand, the world economy faces a variety of unprecedented headwinds, including:

- the exponential (long-term?) decline of established economic centres like the EU, Japan, and the US;
- continued reshuffling of what is 'emerging': classes, companies, economies, powers, even universities but also inequalities and non-communicable diseases (NCDs);
- relentless technological change and disruption, from the Internet and mobile phones to FinTech and the Internet of Things; and
- new and old 'global' issues, among them climate change, drugs, guns, gangs, migration, religious fundamentalism, and water.

The International Monetary Fund's (IMF) most recent World Economic Outlook (2017) additionally highlights 'persistent structural problems' in the world economy and worries political will is insufficient to deploy the economic policies necessary to address them. These fears are pertinent at the regional level as well, with the OECD (2017) arguing that continuing high levels of unemployment in the Eurozone may slow the region's growth prospects for years to come.

On the other hand, signs of progress are also apparent. The decade-long rise of the BRICs (later BRICS) has advanced rebalancing among countries (Gray and Murphy 2013), if not necessarily within them. The world's most marginal continent, Africa, appears to be undergoing the anticipated renaissance (Shaw 2012): *The Economist's* 2011 description of Africa as the 'hopeful' rather than the 'hopeless' is verified, at least in some areas (e.g. access to water), by progress

made towards achieving economic and social development goals (World Bank 2017). Speaking of development, and in response to encouragement from international non-governmental organisations (NGOs) (www.beyond2015.org) and think tanks (www.post2015.org), the UN has articulated new development desiderata under the banner of 'sustainable development' (http://www.un.org/sustainabledevelopment/). These depict a finer-tuned approach to long-term development than did the Millennium Development Goals (MDGs), especially in highlighting the manifold ways in which environmental disregard hinders economic progress in the developing world. Finally, *The Economist* (2017, 19) also recently noted that 'for the first time since 2010, rich world and developing economies will put on synchronised growth spurts'.

This handbook captures the state of analysis of contemporary International Political Economy (IPE) which has not only been transformed by the end of bipolarity and the rise of emerging markets but continues to be buffeted by the forces described earlier. Both the analytic and existential 'worlds' of IPE are changing in myriad ways. For example, in June 2018, the threat to established multilateralism was palpable as President Trump 'made nice' with Russia's Vladimir Putin and North Korea's Kim Jong-Un, while publicly insulting Canada's Justin Trudeau, leaving the G7 summit early and promising, then refusing, to sign a G7 joint statement. As analysts and advocates of IPE, we need to ponder how such new (and mercurial) alliances among strongmen affect the EU, the North Atlantic Treaty Organization (NATO), the World Trade Organization (WTO), and the G20, not to mention the BRICS and South-South cooperation. But we must also grapple with the implications of the reverse situation: cooperative strongmen may indeed threaten global governance, but competition among them can 'also raise the risk of confrontation between them' (MacKinnon 2018, A13). 'Hawkish' domestic reputations left India's PM Narendra Modi and China's President Xi Jinping little room to manoeuvre in resolving a border dispute in 2017 (Stuenkel 2017), threatening conflict at the annual BRICS summit and raising questions about when allegiance to multilateral clubs will be able to overcome such hurdles—and when they will not.

Our authors juxtapose a set of overlapping perspectives to consider whether and how the several 'worlds', from 'old' North Atlantic/North Pacific to the 'emerging' or 'Second World' (Khanna 2009), have grown together or apart as global crises and reordering proceeded. Every chapter includes a contemporary update on both existential and theoretical developments: from 'Asian' to 'global' crises, from newly industrialised countries to BRIC/S and Mexico, Indonesia, South Korea, Turkey, and Australia (MIKTA). Our contributors include both established and rising scholars in IPE. Their work spans a variety

of disciplines and draws on both academic and practical experience in global economic affairs. Furthermore, in line with developments in IPE, many of our contributors come from the Global South, whether in diasporas or not. In preparing this handbook, then, we hope to reinforce the pressure towards a more 'global International Relations (IR)' as advocated by Amitav Acharya (2014), Arlene Tickner and Ole Wæver (2009), Parag Khanna (2009; www.paragkhanna.com/), Oliver Stuenkel (2015; www.postwesternworld.com) and others.

The handbook is the third in Palgrave's new series of Handbooks on IPE, preceded by volumes on the *International Political Economy of Energy* (Van de Graaf et al. 2016) and on *Critical International Political Economy* (Cafruny et al. 2016). It is informed by Timothy Shaw's IPE series at Palgrave Macmillan (now part of Springer Nature: www.palgrave.com/ipe), which after 35 years continues to attract 20–30 new titles each year. That series always focused on the Global South, previously the 'Third World'. Symptomatically, eight of its hardback 'classics' were reissued in paperback in late 2013, accompanied by new prefaces. In other words, much remains to be done in understanding the issues and geographical areas of the Global South, and many of the chapters in this volume explicitly address this task. At the same time, we recognise that understanding the Global South in absentia of their interaction with the Global North is insufficient if we want to understand the growing complexity of today's economy and the political decisions which guide it. Consequently, from Brexit to climate change to macroeconomic imbalances, this volume explores issues where the Global North continues to both generate and hold responsibility for solving global problems and/or where South-North cooperation will prove crucial in the future.

This overview provides an introduction to the four themes explored by authors in this handbook. First, we discuss the development of contemporary IPE theory and, especially, how both theories and concepts have evolved in line with manifold changes in the global economy. Second, we consider elements of global reordering arising from global economic shocks of the 1990s, the rise of the BRICs/BRICS in the 2000s, and the subsequent global financial crisis (GFC) and (still) ongoing recovery. Third, we address the numerous and diverse global crises policymakers must confront, ranging from food insecurity to financial regulation to development. Fourth, we engage with several specific issues in contemporary IPE, where our authors alternately provide a new take on established issues (e.g. globalisation) or point out new areas whose micro- and macroeconomic implications are likely to be substantial. We conclude our overview by identifying five changes which should shape how we understand, teach, and practise IPE, particularly related to the Global South, in the coming decades.

Contemporary IPE Theory

Given the changes to the world economy—and the political context within which it is regulated and managed—it is unsurprising that scholars are redefining the boundaries of IPE theory to incorporate new issues, actors, institutions, and levels of governance. Such novel forms of analysis are increasingly demanded as orthodox, established disciplines like IR remain hesitant to look outside the state and the formal. Several trends are apparent in the existing literature, which are also reflected in the contributions of this handbook's authors.

First, scholars—and even practitioners—are increasingly updating traditional theories of IPE to accommodate the increasing *geographical diversity* of our understandings of IPE. For example, the world of capitalisms has never been more diverse. Authors increasingly explore new 'varieties of capitalism' in the Global South in addition to old trans-Atlantic and -Pacific capitalisms (Nölke 2014). Southern varieties of capitalisms are themselves diverse, varying even within regions. For instance, Nigeria and South Africa are increasingly connected and yet display strikingly different forms of 'African' capitalism: while Nigeria is a highly informal political economy with a small formal sector rooted in energy, beer, consumer goods, and so on, South Africa is characterised by a well-established formal economy centred on mining, manufacturing, farming, finance, services, and so on. Changes in the world economy and global economic governance have simultaneously bolstered the activities of new actors and suppressed the dominance of others. From Brazil and India's proactive engagement in global trade negotiations (Hopewell 2016) to the new power vacuum in climate governance which China and the EU are happy to fill (Adams 2017), rising powers and established states are collectively and individually carving out new roles for themselves in the US-led/dominated system of global governance and changing that system in the process. Such changes have raised questions about the applicability of old IPE theory for explaining contemporary global economic governance (e.g. Schmidt 2009). In response, scholars are developing new concepts and reconfiguring old ones to better approximate how geographical diversity in governance affects the global political economy (Destradi 2016; Fonseca et al. 2016).

A second trend sees authors pushing the boundaries of traditional theories to *improve predictions and fill gaps in our understanding*. These innovations have often been prompted by changes in the global economy and global economic governance. For instance, the clash between rising energy demands and

the threat of climate change has prompted a re-evaluation of classical Marxist understandings of how and why capital accumulates in the world economy (see DiMuzio and Dow (Chap. 34), this volume). Likewise, the proliferation of global states (Cooper and Shaw 2013) concurrent with Brexit, the EU's migration invasion, and the resulting undermining of the EU as a regional model has led scholars to engage with a variety of 'new' regionalisms (Krapohl 2017; Shaw et al. 2011). Other innovations expand the scope of traditional theories. For example, work on 'financial statecraft' demonstrates the relevance of neorealist IR theory to development and financial policy in addition to the theory's classical emphasis on balance of power and security (Roberts et al. 2018). Similarly, domestic politics have been shown to matter even in technical issue areas like WTO dispute settlement reform, raising new questions about how domestic preferences affect global economic positions when electoral pressures are weak (Mahrenbach 2016). Yet, other authors seek to clear up theoretical muddling by scholars and reporters alike. For instance, Matthew Eagleton-Pierce (2016) dissects 'neoliberalism' into 44 related concepts, depicting the diverse pathways by which neoliberalism has become ingrained in economic behaviour at the individual, national, and global levels.

A final trend sees scholars broadening theoretical horizons in response to the *expanding complexity of economic governance*. As semi-state, hybrid formats increasingly challenge and supersede exclusively interstate international organisations and laws, 'governance' is being redefined and rearticulated (Harman and Williams 2013; Bevir 2011). This has led to new interest in the role of informal international organisations in the global economy (Vabulas and Snidal 2013) as well as the rediscovery and rehabilitation of 'transnational' governance (Dingwerth 2008; Hale and Held 2011; see also Keohane and Nye 1972). Furthermore, scholars have accorded more attention to the creation of—and interaction among—multiple levels of governance. Nowhere is this more apparent than in reference to changes in global trade. Recent negotiations, for instance, for a Transatlantic Trade and Investment Partnership (TTIP) between the US and the EU sparked strong public engagement (and often resentment), with the Belgian province of Wallonia demonstrating just how important subnational actors are in today's polarised environment. At the same time, bilateral and regional preferential trade agreements (PTAs) have proliferated as the Doha Development Agenda puttered along, fostering a move towards 'thin institutionalism' and a more power-based system of trade governance (Trommer 2017). Trade scholars have responded by making room for non-state actors in their analyses (Siles-Brügge 2018), exploring the changing power relations at the heart of trade governance (Hopewell 2016,

Narlikar and Priyadarshi 2014) and updating theories to include the interaction between different levels of trade policymaking (Mahrenbach 2013). These theoretical developments will have long-term implications for IPE, for example, by encouraging the creation of innovative new graduate programmes, such as PhDs at the University of Massachusetts, Boston, or Waterloo, which incorporate extended concepts of global governance (see Weiss and Wilkinson 2014) into young scholars' curricula.

The chapters in this section reflect these trends. Not only do they span the multiple levels of analysis crucial to understanding how heightened complexity and diversity are affecting global economic affairs. They additionally reflect on IPE theory's empirical implications regarding political- and socio-economic decision-making across the world. How can theoretical adaptation enhance our ability to explain changes in today's global economy? And how can it help us better prepare our students for the world in which they will engage as scholars, activists, advisors, and practitioners?

Global Reordering

The growing salience and activism of emerging powers and emerging markets, including but not limited to the BRICS, constitutes a central shift in global relations. This has been reflected in the proliferation of analytical perspectives about emerging economies, middle classes, multinational companies (MNCs), states, and societies in contemporary economic affairs. It is also evident in the interdisciplinary interest in global reordering: compare Goldstein's (2009) political economy approach to emerging MNCs with Pieterse's (2011) sociologically informed concept of 'emerging societies'. Innovations in the institutional architecture of IPE scholarship, such as new centres for studying the BRICS in Delhi (www.orfonline.org), Rio (www.bricspolicycenter.org), and Toronto (http://www.brics.utoronto.ca/) and institutes focussed on regions and regionalism, such as German Institute of Global and Area Studies (GIGA) in Hamburg (www.giga-hamburg.de) or United Nations University Institute on Comparative Regional Integration Studies (UNU-CRIS) in Bruges (www.cris.unu.edu), have secured global transitions at the forefront of IPE scholarship in years to come.

Crucially, while much of this work has concentrated on the BRIC/S and 'emerging' or 'rising powers' (e.g. Lesage and Van de Graaf 2015), IPE scholars, nonetheless, recognise the diversity of the 'new' in today's world. Studies have detailed the nuances and repercussions of growing engagement by 'middle powers', 'regional powers', and a variety of other types of powers in global

affairs in an effort to better understand how ongoing global reordering cuts across issue areas, geography, and levels of analysis (Harris 2005; Jordaan 2003; Narlikar 2010). As the G8 morphed into G20 (Cooper et al. 2007), analysts even began to map 'emerging' worlds, for instance, Parag Khanna's (2009) 'second world' or the US National Intelligence Council's 'non-state world' option (www.gt2030.com). In this context, it is important to note the temporality of the 'new': technological change and disruption, from 2017's ransomware attacks to the rise of 3-D printing, are altering avenues of competitive (dis)advantage and aspiration, with implications for science, industry, politics, and crime.

This handbook builds on these trends by discussing two types of reordering—political and economic—as well as the effects of one significant change—the rise of China—on the future development of IPE scholarship. Starting with *political reordering*, in line with contributions from IR scholarship (e.g. Stuenkel 2015; Kahler 2013), IPE scholars have examined the implications of rising states' growing power for economic governance at the regional and global levels. In the realm of finance, for example, we see discussions of global reordering in relation to IMF reforms (Woods 2010), informal approaches to financial governance (Heine 2010), and financial strategies (Armijo and Katada 2015). In trade, scholars have moved from traditional stepping stone/stumbling block debates about the impact of PTAs (Bhagwati 2008) to examining how new actors (Hannah 2016), newly powerful actors (Vickers 2012; Singh 2017), and changing external conditions (Evenett and Hoekman 2009) affect our aspirations—and capacity—to govern global trade. At issue here is who will be the 'rule makers' and who the 'rule takers' in the global economy in the coming decades (Lavenex and Serrano 2016). Rising powers clearly aspire to this role. As Oliver Stuenkel (2016, 2) writes, 'Just as the states of the Global North exercise the privileges of leadership, so will the BRICS. The BRICS will enjoy these same kinds of privileges in the institutions they create. The fundamental dynamics of power in international affairs remain unchanged'. The extent to which emerging states will achieve this aspiration beyond institutions that they themselves have created remains to be seen.

Of equal relevance is how states of the Global North—particularly the US—and in/formal institutions of global economic governance will adapt and react to these changes. Amitav Acharya (2014) predicts 'the end of American world order', although not the decline of the US, calling for the US to engage more heavily with emerging states in global and regional governance. Eichengreen (2011) argues the US dollar will remain the world's default currency for some time to come but advocates, nonetheless, for the US to adapt its foreign economic policies—both for its own financial health and

to accommodate the changing global context. Turning to institutions, Lesage and Van de Graaf (2015) pinpoint how diverse types of institutions are responding to global change, providing a useful typology of institutional responses, while Schirm (2013) illustrates how domestic pressures have revamped the structure of G20 cooperation. Interestingly, this political and behavioural reordering among emerging and established states may be just as likely to negatively impact governance effectiveness as to enhance it (Knaack and Katada 2013). Meanwhile, formal efforts to institutionalise political reordering, for example, at the World Bank or IMF, have resulted in little real change for decision-making in those institutions (Vestergaard and Wade 2015). As a consequence, the creation of new institutions like the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank is already affecting both where and how global rules are made.

Economic reordering is intimately related to these diverse efforts to adapt global decision-making. For example, the initial iconic acronym—BRICs—was proposed by a leading economist working for a global financial corporation, namely, Jim O'Neill (2001) of Goldman Sachs. The BRICs' governments seized the moment in 2009, transforming an acronym into a political grouping and capitalising on the legitimacy accorded by Goldman Sachs' recognition of their economic potential (Stuenkel 2015). The realisation of that potential is evident in the growing clout of emerging market MNCs, their growing involvement in global development financing (Chin 2014), and their increasing presence in global financial markets, governance, and agenda-setting (Huotari and Hanemann 2014). It is also evident in Southern states' willingness to pick up the baton of free trade, foreign investment, and so on via initiatives which link the North and South when America First translates into US abandonment of long-term projects. A recent example is the 11-state Comprehensive and Progressive Agreement for Trans-Pacific Partnership signed in March 2018, which is estimated to increase members' economies by 1.7% on average by 2030 (*The Economist* 2018). The (re?)emergence or recognition of emerging middle classes in the Global South, just as some in the North move down the social ladder, also impacts IPE. For instance, MNCs, brands, and franchises which produce automobiles, clothing, electronics, entertainment, food, media, and so on, are increasingly concentrating on markets in the Global South, from Diageo spirits to McCain French fries. In addition, reflecting a trend which spans emerging markets and industries, Nigerian entrepreneurs are developing their own (fast food) franchises to compete with global heavyweights like KFC, Nando, and so on, among them Mama Cass and Mr Biggs.

Nonetheless, concurrent with the improvement in these states' global economic positions, the demand or need for 'development' is shifting away from the poorest countries, including 'fragile' and 'failed' states (see www.foreignpolicy.com/failedstates), to poor communities in the Second (and First?!) Worlds. This demonstrates the flip side of the rise of the middle classes in the Global South. Additionally, growth along the lines demonstrated in the early 2000s has been complicated by changing external conditions and a reluctance to pass necessary reforms (*The Economist* 2017). Of the BRICS, for example, only one (India) has shown consistent annual growth in the aftermath of the GFC (World Bank 2016).

We join these scholars in viewing both political and economic reordering as dynamic processes. The mix of technological, environmental, legal, and personal change means that even seemingly minor changes in individual countries can have global implications. One example is Canada's recent acquisition of a new formal and legal economic sector in October 2018: cannabis. Seemingly overnight, the industry seized the imagination of entrepreneurs, governments, and, of course, investors—who have subsequently driven the valuation of stocks into the stratosphere. Interestingly, the main effect was to shrink informal/illegal flows of cannabis products, not to stimulate new production via startups and the like. That is to say, the economy did not expand; it just switched one sector from illegal to legal. Such developments have wide-ranging implications. For one, several Canadian and other MNCs, including Canopy Growth, Aphria, and Aurora, have expanded, buying and selling related companies and facilities in Australia, Colorado, and so on. This has led to the creation of four Canadian exchange traded funds focussing (ETF) on the sector, with more expected as the sector develops. At the same time, formalising the cannabis industry provides new opportunities for government regulation, among them, regulation of product quality, psychedelic content, export and import, and taxation. This, in turn, implies changes in domestic interest representation, as new opportunities arise for joint (or opposing?) campaigns by the cannabis, and related alcohol, pharmaceutical, agricultural, and food and beverage industries. It is within this dynamic context that the authors in this section examine topics ranging from diasporas to global governance reform.

Finally, no aspect of global reordering is more remarked upon than the *rise of China*. Two aspects of China's rise appear particularly important. For one, the logistics—and time frame—of that rise are much debated in both academic and policy circles. While many predict China to become the largest economy by 2025 (Hawksworth and Cookson 2008), others see China surpassing the US in economic size, measured at market exchange rates, in 2029

(CEBR 2015), while yet others, namely the IMF and World Bank, already ranked China as the world's biggest economy, measured in purchasing power parity, in 2016 (World Bank 2016; IMF Data Mapper 2017). But what if the US and other North Atlantic/Pacific economies rebound by the end of the second decade of the twenty-first century? Will the balance then tip back to the established North? Another aspect addresses China's relationship with existing global economic governance, both within and beyond the Global South. Will China be socialised into established multilateralisms which favour the North (Scott and Wilkinson 2015)? Will it lead the BRICS, the AIIB, and the Shanghai Cooperation Organization to confront established global norms (Li 2014) and put in place a global order which prioritises state-owned enterprises (SOEs; Xu 2012)? And how will China's outsized position within the BRICS affect the answers to both of these questions? Our authors address these questions and more in the global reordering section of this handbook.

Global Crises

As global reordering continues, the number of global crises accompanying it has multiplied. From climate change and food insecurity to tax havens and Brexit, IPE has kept pace, offering both scholarly analysis and policy advice to meet the growing challenges faced in the countries of the Global South and the Global North. The thematic diversity of these crises displays the increased varieties of 'risk' at play in today's global economy. Fortunately, IPE scholars and actors have engaged on multiple fronts, identifying and critiquing (new) issues as well as the myriad reactions of governments, NGOs, citizens, and others to this ongoing stream of challenges. This section, like the corresponding section of the handbook, addresses a selected few of these crises as well as how IPE scholars are engaging with them.

The GFC of 2007 and 2008 put *financial regulation* and *macroeconomic imbalances* at the centre of global policymaking, as nations struggled to minimise national damage and contain economic contagion. Kindleberger and Aliber (2011) point to a lack of regulation of lending in the US market as the true cause of the GFC, arguing that the US government's failure to accurately diagnose the problem has led to policy solutions which are unlikely to prevent future, similar crises. Beyond the US, national imperatives not only conditioned domestic responses but also limited the scope of coordinated policy responses (Fawley and Neely 2013). The fallout from the GFC was compounded by the subsequent Eurocrisis and remains concerning as the US

appears to back away from its commitment to a liberal world order under the Trump presidency. In this context, the governance of the global economy is at stake. Admittedly, the fluidity of the global architecture has increased: the Financial Stability Board (www.financialstabilityboard.org) is matched by think tank networks like the World Economic Forum (WEF's) Risk Response Network (RRN) (www.weforum.org/global-risks-2012) and the Global Risk Institute (www.globalriskinstitute.com). However, reforms to institutions of global financial governance have done little to alter either policy paradigms or actual power distribution in these institutions (Huotari and Hanemann 2014; Broome 2015), and transnational club governance of global finance persists despite its failings (Tsingou 2015). Are we really more prepared for the next GFC than we were in 2006? To what extent is concomitant work on multiple fronts (development, health, environment, finance) necessary to secure any gains made in addressing regulation and governance?

Turning to *development*, aid is now about cooperation, not finance, as a range of flows surge into the Global South. These include private capital, Foreign Direct Investment (FDI), philanthropy of faith-based organisations (Moran 2014), remittances, let alone money-laundering (Shaxson 2011). Simultaneously, official development assistance (ODA) is a shrinking proportion of transnational transfers (Brown 2011), and both patterns and discourse of ODA are showing substantial shifts (Chin and Quadir 2012). Development resources are increasingly supplied by new official donors, among them, the BRICS, South Korea, and Turkey, private foundations like the Gates Foundation, remittances from diasporas, and sovereign wealth fund (SWF) investments. Aid is also being drawn from novel sources of finance, such as taxes on carbon, climate change, energy supply chains, and financial transactions (Besada and Kindornay 2013). Despite these innovations, as the MDGs expired in 2015, it became clear that previous efforts to address development challenges left substantial room for improvement, and that new approaches were needed to address issues as diverse as gender and economic inequality, climate change, poverty, hunger, and conflict. The severity of the challenge is underlined by the 'triple bottom line' of the new(ish) Sustainable Development Goals: 'Success in any of these three categories (or subcategories within them) will almost surely depend on success of all three […as well as] a fourth condition: good governance at all levels, local, national, regional, and global' (Sachs 2012)—an intimidating prospect.

No less intimidating is the crisis of *food insecurity*. Although food security has improved in the past five years, persistent conflict and 'market-distorting government food policies pose risks to food prices and food availability in the future' in many countries (The Economist Group 2017). According to the

Global Hunger Index, 50 countries continue to have 'serious' or 'alarming' levels of hunger and another 10 countries not included in the index are of 'significant concern' (von Gebmer et al. 2016). Some analysts suggest that we may be running out of basic commodities like energy (Klare 2012) and water, let alone rare-earth elements, hence the rise of the 'water-energy-food' nexus (Cheru and Modi 2013). In addition to these individual effects, food insecurity and/or food security concerns have complicated global decision-making, further worsening multiple crises. For example, concerns about food security have exerted a substantial blocking influence on agricultural discussions at the WTO, with impacts for both negotiating and dinner tables around the world.

Such global crises underline the need not only for IPE to examine these changing conditions but to offer advice regarding the content and implementation of policies designed to address these and other global crises. How should both government and non-government actors engage with these growing crises? How can technology be (better) used to make actors' efforts more efficient and effective?

Emerging Issues in Contemporary IPE

Over the last quarter century, IPE and other perspectives have begun to treat a growing number of global issues arising out of the Global South and North. These include environmental and other consequences of climate change, health viruses/zoonoses, as well as computer viruses and cybercrime. In this part of the handbook, we seek to advance IPE analysis of issues typically overlooked or on which we felt new perspectives are needed. These 'contemporary' 'global' issues vary widely, ranging from traditional topics of gender, globalisation, and sustainability to less common but equally important topics of gaming, sport, piracy, and technology. We review a selected few of these emerging issues in IPE here; we hope you will consult the chapters themselves to gain a more detailed grasp of the full array.

'*Non-traditional security*' is an increasingly recognised field, from small arms to radicalised youth. Organised crime has become increasingly transnational, with the proliferation of (young/male) gangs from myriad states (see Knight and Keating 2010; Muggah 2011), and thus an ever-expanding 'shadow world', as described by Andrew Feinstein (2011). Regulation of not just drugs and guns but also protected commodities has generated criminal opportunities, including in the EU:

> Organised crime is globalising and diversifying. Mono-ethnic, hierarchical mafias are being replaced by multi-ethnic networks that operate across borders…just a quarter of Europe's roughly 3,600 organised crime groups have a main nationality, and…some operate in dozens of countries. A third are involved in more than one criminal enterprise, with half of those linked to drug-trafficking. (*The Economist* 2014)

Put differently, criminal and security threats are as profitable as they are dangerous. Such pressures have led worried and fearful societies, particularly in Central America and the Caribbean, to expand their aspirations from national and human security to 'citizen security'. The field of IPE needs to be equally dynamic and flexible, developing analyses and prescriptions along the lines established by the informed annual Small Arms Survey (SAS) and Latin American now Global Commission on Drugs and Drug Policy/Health (www.globalcommissionondrugs.org).

Other scholars, practitioners, and NGOs have begun to look at how new technologies and global reordering lead to *emerging innovative sources of finance* beyond FDI and ODA. For example, states have created new institutions to address financing gaps arising from a shift in the World Bank's and regional banks' focus to anti-poverty efforts in the 1980s (Chin 2014). These include the BRICS' New Development Bank, inaugurated in 2015 and active since 2016 (www.ndb.int), and the AIIB, animated by and established by China in early 2016 but rapidly joined by leading states from around the world (www.aiib.org). Other mechanisms seek to take advantage of the growing interconnectedness of the world today. For example, actors have proposed a Currency Transaction Tax along the lines of the original Tobin Tax as a means of funding development initiatives (UN 2011); an airline ticket levy to support Unitaid, a global drug purchase facility (www.unitaid.eu; World Bank and GAVI Alliance 2010); as well as remittance tax or diaspora bonds as investor facilities for migrants looking to invest in underfunded development projects in their home country (Ratha et al. 2011). While this wealth of activity illustrates a strong (and growing?) commitment to addressing development challenges, success is hardly guaranteed. For example, the Digital Solidarity Fund was introduced in 2005 to 'reduce the digital divide and […] contribute to the creation of a fair, all-inclusive information society' (DSF Foundation 2007). Not only has the digital divide increased over the intervening years (Arora 2016), the DSF was dissolved by its own board in 2009. This points to an ongoing need for scholarship, examining how to best raise and spend the finances necessary to meet diversifying development needs.

While the 'global' middle class grows, so too do inequalities and NCDs like cancer, coronary heart disease, and diabetes. Researchers have consequently developed a substantial literature on the IPE of *global health*. The BRICS' engagement in global health, for example, has been motivated both by national incapacity to address health crises such as AIDS and SARS and by the failure of institutions like the World Health Organization (WHO), G8, and G20 to provide either money or leadership in fighting transnational epidemics (Kirton et al. 2014). Brazil has proven especially accomplished in combatting the economic hindrances accompanying global health governance, for example, overcoming the opposition of domestic, regional, and multilateral interests to push through the WHO's Framework Convention on Tobacco Control (Lee et al. 2010). This economic interest in health policy is not limited to the Global South. The US has consistently prioritised the interests of its pharmaceutical and hospital sectors in global health decisions, even when doing so limits global access to necessary medicines and undermines international rules which largely reflect US economic preferences (Roemer-Mahler 2014). In fact, given the growing incidence of disease in Southern markets, Northern manufacturers of drugs like insulin, such as Nova Nordisk, increasingly concentrate on markets in the Global South. Other authors underline a need to look further afield to understand global health failures, for instance, pointing to gendered inequalities as a crucial—and oft overlooked—determinant of health emergency mismanagement (Davies and Bennett 2016).

Finally, *global events,* from world's fairs to world soccer, are increasingly in the crosshairs of the global reordering processes sketched earlier in this chapter. The Olympics, for example, can be seen as a political platform for actors at all levels of government and has long been used to leverage public support for broader policy goals (Toohey and Veal 2007). These motivations remain relevant in today's world. As the world economy has become more integrated and open, emerging economies in particular tend to view mega-events as opportunities to boost economic growth and development. In fact, studies have found that countries can garner long-term trade benefits from hosting global events (Rose and Spiegel 2010). More often, however, these economic hopes remain unfulfilled (Grix et al. 2015). As demonstrated by India's 2010 experience with the Commonwealth Games, existing developmental challenges, including corruption, inadequate infrastructure, and poverty, can and frequently do undermine goal achievement in reference to mega-events (Siegel 2010-2011). Furthermore, the structure of these events reinforces and potentially even worsens existing labour inequalities, both nationally and transnationally (Carter 2016).

Our authors approach these and other topics covered in this section of the handbook from the perspective of change and continuity, examining how IPE has and must adjust to the changing global context. As such, these chapters are the empirical reflection of the developments highlighted in the handbook's previous discussions of theoretical development, global reordering, and crisis. Such heterogeneous relations/perspectives deserve more recognition and attention in twenty-first-century IPE.

An Agenda for IPE Development in the Coming Decade?

In conclusion, we identify five contemporary trends which we argue should serve to redefine the study of IPE in the next decade in terms of curricula, research, publishing, and policy:

- *First*, the world is experiencing an exponential global restructuring in myriad areas, from economics and ecologies to diplomacy and security (Besada and Kindornay 2013; Overbeek and Van Apeldoorn 2012). Such changes should be reflected in our syllabi, in our research collaboration, and in a willingness to use technology to engage diverse perspectives and actors without (further) destroying the environment in the process.
- *Second*, as reflected in the cover image of this volume, we observe shifts in the direction and concentration of global supply and value chains, including broadband Internet, airline, and container hubs. This shift is occurring in conjunction with changes in the technologies of publishing, for instance, the proliferation of online and open-access journals. Combined, these factors will produce changes in both the empirical inputs and scholastic outputs of IPE with which scholars must explicitly grapple.
- *Third*, we are not the first to observe that the world is undergoing a digital revolution. Particularly in the Global South, this has led to the development of a 'sharing economy' through the Internet of Things (Kshetri 2016), the rise and spread of big data-informed policymaking (Mahrenbach et al. forthcoming), and new models of banking and insurance provision (see Bernards (Chap. 20), this volume). The opportunities are exciting, but success is not guaranteed. IPE must engage more systematically with the potential of digital technologies to facilitate progress in the Global South and North.
- *Fourth,* we see a continued evolution in heterogeneous, hybrid, transnational, multi-stakeholder communities. These not only incorporate new

actors, from transnational social movements to multinational corporations and SOEs but increasingly draw on diverse funding sources, including exchange-traded and pension funds, SWFs, and so on. Both should be front and centre in IPE studies and graduate programmes to prepare our students for the world in which they will research and live.

– *Lastly*, and perhaps unfortunately, we expect further defensive, nationalist responses to inequalities and radicalisation. For now, this has already led to redefinitions of security and citizenship; in the future, it may lead to the identification and/or reshaping of other 'global goals'. IPE must commit to delivering theoretical adaptation, empirical flexibility, and creative policy advice to ensure our discipline remains on target and politically relevant in this dynamic environment.

Combined, these trends should lead to the greater privileging as well as theorising of the Global South (Bergamaschi et al. 2017), 'global studies' (O'Byrne and Hensby 2011), and 'global governance' (Weiss and Wilkinson 2014) in years to come. We strongly support such efforts.

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Part I

Contemporary IPE Theory

2

Financial Statecraft

Leslie Elliott Armijo

Traditionally, 'financial statecraft' (FS) has meant the use by a powerful state or coalition of states of its control of currency or credit to coerce a less powerful rival or client state into altering or ceasing some action that the sanctioning states' leaders have found objectionable (Biersteker et al. 2016; Steil and Litan 2006). It is thus a subset of 'economic statecraft,' also understood as a tool of foreign policy pressure (Baldwin 1985; Cortright and Lopez 2002; Hirschman 1945; Hufbauer et al. 2009). FS, therefore, implies that a major state or states are acting to police the international system, correcting undesirable ('rogue') behaviour by a misbehaving country, or occasionally offering a financial incentive for diplomatic cooperation. However, new scholarship suggests expanding this traditional conceptualization in two directions. First, the scope of FS is broader than coercion or inducement with a specific behavioural goal for the target. FS includes not only freezing banking assets linked to terrorism but also state-directed foreign investment and loans, currency wars, and international financial crisis management (Andrews 2006; Armijo and Katada 2014; Cohen 2015; Helleiner and Kirshner 2014; Kirshner 2014). Powerful states employ financial and monetary levers to create, constitute, and govern interstate economic relations, as well as to shape global markets. Second, this is an era in which financial power and influence are diffusing from the advanced industrial countries, the West plus Japan, to emerging economies (Grabel 2018; Kahler 2016; Pieterse 2017; Zakaria 2012). Rising powers, including China and the other BRICS countries (Brazil, Russia,

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India, and South Africa), as well as Saudi Arabia, have actively employed FS in the hopes of reshaping international institutions, markets, and the choices of other states. The universe of cooperating, but also competing, players at the global level is increasingly multipolar.

The section 'The Meaning of Financial Statecraft' summarizes the traditional view of international FS and proposes an alternative: conceptualizing financial sanctions and global monetary and financial governance not as separate activities—the one punitive and discrete, the other high-minded and ongoing—but rather as a continuum. Sections 'The US: The Financial Statecraft of the Incumbent Hegemon' and 'China: The Financial Statecraft of the Emerging Challenger' analyse the differing goals, orientations, and instruments through which the US and China currently practise FS and briefly meditate on the ways in which underlying financial power resources shape state options and actions. This chapter's final section 'Shifts in Financial Statecraft in the Twenty-First Century?' looks to the future.

The Meaning of Financial Statecraft

FS may be defined as 'the use, by the governments of sovereign states, of national levers of direct and indirect influence over financial assets, markets, and actors for the purpose of achieving larger foreign policy objectives' (see also Armijo and Katada 2014; Roberts et al. 2017). The scope of the term encompasses *intentional* state actions, employing *financial or monetary* resources, and aimed towards influencing either *other states* or important *conditions of the international system*. The term also may include defence against the use of aggressive FS by rival states. Intentionality in the service of foreign policy goals is crucial. If the US Federal Reserve Bank lowers interest rates ('quantitative easing') in order to maintain macroeconomic growth following a recession, then this is not FS, even if lower financial returns in the US constitute a factor pushing mobile investors to move their funds to Mexico or Argentina. Political leaders' actions that are primarily oriented towards achieving domestic goals thus fall outside of the scope of international FS.[1] Of course, operationalizing intentionality is never straightforward, raising inevitable questions of exactly how one knows what an individual policymaker's goals—let alone the goals of a sovereign state—are, but the analytical distinction between domestic and foreign policy goals is clear. This definition of FS

[1] Thanks to Eric Werker for obliging me to clarify this point.

rests on basic rational choice assumptions: states wish to survive and prosper economically; they will cooperate for mutual gain but only if mechanisms such as institutions and shared norms exist to assist their leaders in trusting one another; and in an environment of international mistrust, state players are more likely to assume and pursue zero-sum courses of action. This framing of state intentionality by no means excludes a significant role for ideas, perceptions, and beliefs in shaping the preferences and assumptions of incumbent leaders of sovereign states about how to prosper, whom to trust, and the causal links among actions and results (Finnemore 1996: 1–33). The definition merely posits that state leaders pursue their perceptions of state interests.

In other respects, new scholarship suggests modest reconceptualization, summarized in the following table, based on Roberts et al. (2017: 68). A traditional understanding assumes that the initiating state (the agent or actor) is either a major power or a coalition led by a major power. In an expanded conceptualization, weaker states such as rising or intermediate powers also may be active agents, acting alone or in concert. They may not be sufficiently powerful to coerce another state, yet often can exercise a critical voice or even constitutive power, especially when they are able to join coalitions or coordinate with others.

The table's second row compares categories of targets. Where a traditional conceptualization focuses on direct influence over another state, an alternative approach also identifies as FS the conscious effort of a state or states to employ levers of credit, currency, and regulatory powers to shape the rules, procedures, and culture of global governance institutions. Thus, in early 2009, the BRICs[2] made clear to their fellow members of the Group of 20 (G20), at a world leaders' summit convened to sort out the global financial crisis of 2007–2009, that the expanded financial contributions of these emerging powers to the International Monetary Fund (IMF) would be made in the form of interest-bearing bonds, in anticipation of being rewarded with enlarged voting shares (Roberts et al. 2017: 81–82). Intentional national government efforts to influence international currency and financial markets also qualify as conscious statecraft. For example, disguising the central bank's exchange rate interventions, which almost all states attempt to do, or promoting the enhanced international use of one's own currency, an option realistically open only to a few, both constitute efforts at altering the reality of global currency markets.

[2] In 2009, South Africa was not yet a member of the BRICs.

The table's third row highlights the instruments and techniques of FS, traditionally including the incumbent national government's authority over its home currency, credit, and financial regulations to sanction or reward another state, for example, by freezing the bank accounts of the target's government officials or, more potently, by denying financial institutions from third-party jurisdictions' access to the sanctioning state's markets if these institutions also transacted with the target state's institutions or persons. Financial inducements also may fit traditional understandings of FS. Most sovereign-to-sovereign loans, for example, typically arrive with explicit or implicit political strings, ranging from the expectation that procurement for construction projects will engage donor-country firms ('tied aid'), to credits offered as an implicit quid pro quo for voting with one's benefactor at the United Nations or accepting a foreign military base on national territory. A hard currency country may offer beneficial swap arrangements to political allies whose currencies confront challenges. The right-hand column's expanded conceptualization also includes as FS the constitutive and ongoing foreign policies underlying a country's efforts, for example, to achieve an enlarged quota at the World Bank, coordinate exchange rate interventions or reserve currency choices, or found a new multilateral bank with a different set of dominant countries.

A fourth dimension highlighted in the table highlights the power orientation of a state's FS efforts. The left-hand column includes bilateral efforts by an agent state to influence a target state to change its behaviour, either by coercion or by inducements. The right-hand column recognizes that FS also may be essentially defensive, involving a state's efforts to preserve its financial or monetary autonomy. Thus, a debtor state may lobby fiercely to be exempted from IMF conditionality or to have its special circumstances recognized by non-standard and less onerous loan terms. Finally, a state also might engage in FS via its exercise of structural power, employing its favoured positions in existing institutions or global networks to set agendas or veto innovations (Grabel 2018; Oatley et al. 2013; Strange 1998). Those state actors involved in initially constituting the rules, procedures, and legitimacy formula for an international governmental organization very often continue to be advantaged by the specific routines and rules even long after the era of the institution's founding (Germain 1997; Gruber 2000; Stone 2011). In other words, path dependence and other insights of the historical-institutionalist approach in comparative politics (Thelen and Steinmo 1992) are also valid for the study of global governance regimes.

Armed with this expanded conception, the chapter reviews several ways in which governments in both the US and the People's Republic of China have sought to achieve larger foreign policy goals by employing FS.

Table 2.1 Traditional versus augmented conceptions of financial statecraft

	Traditional conception	Expanded conception adds
Initiator	• A major power • A coalition led by a major power	• Rising powers, alone or in concert
Target	• A rival sovereign state	• Global governance institutions • International markets
Instruments and techniques	• State influence over its home country currency, credit, and bank and capital markets regulations	• State exercise of voice within global monetary and financial governance • State activities to influence international currency and financial markets
Power conceptualized as:	• Offence via coercion • Co-optation by inducements	• Defence/preservation of autonomy • Structural influence over global institutions, transactions, and norms

The US: The Financial Statecraft of the Incumbent Hegemon

By the end of the Second World War, the US was indisputably the world's financial hegemon, as well as its military one.[3] American foreign policymakers employed the country's strong current account surplus and deep credit resources to shape global governance institutions and fund an international military presence to contain the Soviet Union throughout what became known as the Cold War. The three global economic governance institutions created at the 1944 Bretton Woods Conference—a multilateral trade organization, the World Bank, and the IMF—resulted from American and Allied FSs (Frieden 2006: 254–263, 278–300; Helleiner 1994).

The Bretton Woods trio have been so successful that many observers only dimly perceive the scaffolding that these institutions continue to provide for international economic interactions in the early twenty-first century. In the financial realm, the IMF had the mission of providing emergency loans to countries with short-term yet systemically disruptive liquidity problems. The International Bank for Reconstruction and Development (IBRD; or World Bank) stood ready to make long-term loans from 'the world' to countries needing to build or rebuild infrastructure and heavy industry. The Bretton

[3] The discussions in this section and the next draw on ideas developed in Armijo et al. (2017).

Woods regime was conceived, promoted, and largely funded by the US and to a lesser extent Britain, and would not have come into being had they not possessed both the vision and the financial resources. The US also employed its resources as the world's major creditor state to push both its defeated enemies and its allies towards positions they did not eagerly embrace, for example, providing irresistible incentives and persuasion to bitter enemies France and Germany to integrate their economies through the European Coal and Steel Community, precursor of the European Union (EU). These actions defined the postwar world.

Another pillar of postwar American FS was the US dollar-exchange international monetary standard. During the 1920s and early 1930s, major countries, especially Britain, had attempted to reinstate the gold standard, in which national currencies would be quoted in and convertible to gold. The limited amount of gold in the world meant that any such regime was often harshly deflationary in its effects on domestic populations. Alternatively, policymakers in weak governments simply gave up, concluding that their only alternative for public finance was inflationary spending. Subsequently, postwar leaders blamed volatile and punishing pre-war macroeconomic conditions for the receptiveness of European populations to extremist and belligerent political ideologies. By this logic, stabilizing the global trade and payment systems and supporting well-functioning national economies were urgent postwar political imperatives. From the 1950s onwards, the liquidity necessary to support the dramatic expansion of international trade and global growth derived from the combination of American government spending worldwide and the willingness of the central banks and firms of other countries to hold US dollars as a store of value. The US government, therefore, could expand the money supply at a rate exceeding the needs of the domestic economy, receiving additional seigniorage and consumption benefits. The US dollar was the global reserve, transactions, and accounting currency.

The US lost its formerly robust merchandise trade surplus in the early 1970s, provoking a shift in American FS. US policymakers abruptly announced that the dollar was no longer convertible into gold and implemented a temporary yet across-all-goods tariff of 10 per cent, effective immediately (Frieden 2006: 339–360; Block 1978). Other major countries were obliged to accept these dramatic shifts in the global payments regime. Subsequently, in the mid-1970s, the US instigated the informal yet extremely consequential steering group for the global economy, the Group of Seven (G7), composed of finance ministers and central bank governors from the largest advanced capitalist democracies: Britain, Canada, France, Germany, Italy, Japan, and the US (Bergsten and Henning 1996). Throughout the late

twentieth century, as key regulatory and normative components of the Bretton Woods system—including the major power consensus on the desirability of fixed exchange rates and significant controls on international capital movements—came to be seen by the most senior US economic policymakers as impediments to American growth, the US broke rules of the old system and innovated ones more to its liking. In the absence of alternative viable leadership, other countries grumbled but went along.

Global financial governance leadership by the US and its major allies among the industrialized democracies has provided the backdrop to international political relations from then until now, with American leaders on key occasions exerting their leadership even vis-à-vis their closest collaborators. In the midst of the Asian financial crisis of the late 1990s, senior US policymakers resisted Japan's attempts to play a more active role (Laurence 2002). As the acute phase wound down, the European major powers sought to institutionalize greater international coordination and oversight of national banking regulations, creating the Financial Stability Forum (FSF). Presciently, the US complained of the lack of members from emerging economies, as the FSF had only Singapore and Hong Kong, and convened the G20 (which included most of the larger emerging powers as members, as well as the EU) with the wider but vaguer mandate of debating reforms of the global financial architecture (Armijo 2002; Blecker 1999; see also Beeson (Chap. 13), this volume). In practice, the G20 lacked the clout to pursue significant reforms of the global financial architecture once the issue dropped off the US' core foreign policy agenda, as happened fairly quickly. However, the G20 was suddenly elevated to high salience once US President George W. Bush and his advisors decided in October 2008 that a more representative body than the G7 was needed—in this instance to provide a leadership forum for collective management of spreading ripples from the US' subprime mortgage-lending crisis, which was rapidly becoming the global financial crisis of 2008–2009 (Kirshner 2014).

Of course, American FS also has included the more obvious categories of bilateral grants and subsidized credits (foreign assistance), as well as banking and financial sanctions. Overseas military and development assistance represented over 1 per cent of the American economy from the end of the Second World War through the mid-1950s, peaking at about US$ 65 billion, in constant 2015 US dollars, in 1950. With the end of the Cold War in the early 1990s, foreign aid fell to only about 0.2 per cent of US gross domestic product (GDP), rising to around 0.4 per cent since the World Trade Center bombing in September 2001. The increase mainly corresponds to operations in Iraq and Afghanistan, clearly related to US security priorities rather than development or poverty reduction (Tarnoff and Larsen 2016: 16). Although the US

continues to top the list of reporting donors, mainly advanced industrial democracies, in terms of absolute amounts of official development assistance (ODA) extended, it is not among the top ten donors when aid is calculated as a share of its national economy (World Economic Forum 2016).

The US has continued to use financial sanctions, recently against Iran and Russia. The US-organized collective sanctions between the mid-1990s and 2015 on Iran were intended to pressure that country to allow full external inspections of its nuclear energy development programme to ensure that it had only civilian goals.[4] In 2014, other Western countries joined the US in freezing the bank accounts of Russian individuals, firms, and state entities in response to Russia's occupation and annexation of Crimea. These actions led the BRICS group to unite in support of Russian resistance to Western financial sanctions, despite the discomfort of the other four governments with Russian revanchism (Roberts et al. 2017: 88–92). Recently, US policymakers also have become more active users of defensive varieties of FS, for example, in 2017, blocking the sale of a chipmaker to China on national security grounds (Donnan and Hook 2017).

American leadership in all of these instances involved conscious government employment of the country's capabilities for the larger foreign policy aim of constructing a stable postwar world and ensuring the US' central position within it. Over time, the dominant forms of American FS have shifted. In the mid-twentieth century, US policymakers articulated a grand vision of postwar reconstruction and the spread of democracy to societies ravaged by extremist ideologies. Under recent presidential administrations from Bill Clinton (inaugurated January 1993) through Barack Obama (left office January 2017), US innovation in global financial governance was crisis driven and quickly discontinued once the acute stage had passed rather than visionary and sustained. Their successor, Donald Trump, has been openly contemptuous of global governance institutions. The US presence in foreign assistance has shrunk relative to earlier periods and to that of other governments. In the early twenty-first century, however, the US was active in imposing financial sanctions, which employ the power resources of a country with large and liquid home financial markets and globally dominant financial institutions, but unlike foreign aid do not require budgetary resources (see Vermeiren (Chap. 17), this volume). Restricting foreign access to American capital markets is

[4] Although collective Western sanctions associated with Iran's nuclear programme were lifted in 2015, US President Trump has frequently threatened to reimpose them, leading many foreign investors to continue to shun Iran. Haass (2017).

relatively costless in the short run, although it does stimulate foreigners to switch to alternative jurisdictions, with potentially heavy costs to the American financial services industry over the medium run.

China: The Financial Statecraft of the Emerging Challenger

FS is no longer limited to the incumbent major powers. A rising China has developed its capabilities and begun to pursue international FS. During the 1980s and 1990s, policymakers were mainly concerned to defend the country against dangers originating in the global economy. Policymakers steadily increased the share of trade in China's economy but without liberalizing capital flows. Inward foreign direct investment (FDI) flows continue to be carefully monitored by Beijing, with a great many sectors and locales proscribed, and portfolio capital flows are even more restricted. China largely escaped direct effects from the Asian financial crisis of the late 1990s, largely because its corporate sector (dominated by state-owned yet increasingly independently managed banks and firms) was forbidden to engage in the so-called carry trade, by which banks and firms borrowed internationally at cheaper interest rates than could be found at home. Elsewhere in East Asia, corporations and banks contracted loans abroad more freely but frequently did so without adequately insuring themselves against their foreign exchange risk, creating aggregate vulnerabilities for the economy as a whole in neighbours such as Thailand, Indonesia, the Philippines, and South Korea. Like virtually all of Asia, China had a mostly fixed exchange rate, pegged to the US dollar, yet due to the greater control the People's Bank of China (PBoC) maintained over capital flows, the contagion effects from the Asian financial crisis of the late 1990s also were subdued within China. Nonetheless, the lesson taken in Beijing was that foreign exchange reserves needed to be increased. The PBoC thus expanded its holdings of US Treasury securities, and in 2009, China surpassed Japan as the largest foreign owner of the US public debt.

Larger foreign exchange holdings by the central bank exacerbated two problems for Chinese policymakers, however. First, the trade-off made by foreign sovereign investors such as the PBoC for the safety and liquidity of US Treasury bonds was an extremely low rate of return. China's initial response to this problem was to create sovereign wealth funds (SWFs) to invest some portion of central government holdings of foreign currency in more lucrative assets abroad, including via FDI in advanced industrial country markets.

Although liquidity for SWF assets necessarily was lower than with US Treasury holdings, earnings would be higher. In the US and elsewhere, however, Chinese FDI inflows in the early twenty-first century proved even more controversial than Japanese FDI inflows had been in the 1980s (e.g., Cohen 2009).[5] A second problem for Chinese policymakers that follows from China's build-up of foreign exchange reserves has been that higher USD holdings by the Chinese government rub salt in the already wounded US-China relationship. Increased demand in China and elsewhere to hold dollars strengthens the dollar and exerts downward pressure on the Chinese yuan (also known as the renminbi, RMB). This worsens the American trade deficit with China, which the Americans blame on deliberate exchange rate undervaluation by China and the Chinese on uncompetitive US products.

Here, the comparison of the trajectory of Chinese as contrasted to American FS becomes more complex, with the categories in need of careful specification. The foreign investment decisions of American private firms and banks are not directed by the US government. Only when those firms tip into conflicts abroad, as when their factories face nationalization or their sovereign lending suffers a default, do they call on the state to assert itself on their behalf. Thus, the 1970s expansion in lending to developing countries in Latin America and Eastern Europe by Western and Japanese banks was not FS, but the involvement of senior government financial officials in forming multilateral creditor negotiating committees, and preventing creation by Latin American countries of what was denounced as a 'debtor cartel,' was FS (Biersteker 1993). In contrast, at present, most long-term Chinese investment capital sent abroad through public channels arrives via government banks and firms. Often paired with an implicit or explicit political quid pro quo, it is appropriately considered FS, although its foreign policy goals generally are more diffuse and longer term than is the case with an instrument such as financial sanctions.

Given increasing political resistance from advanced industrial destinations including North America, Western Europe, and Australia, it has been politically easier for China to direct its investible funds to the Global South, and increasingly these destinations have been chosen. Summing ODA and other official credits such as commercial credits from public sector banks, but excluding military aid, the total of Chinese bilateral credits from

[5] Chinese flight capital invested in Western countries is also huge, but doesn't constitute Chinese FS, as these are not government-managed capital flows. The Asia Society estimated that China was the leading foreign real estate investor in the US, with a cumulative US$ 350 billion invested through 2015. Bullough (2017).

2000–2014 was US$ 354 billion (in constant 2016 USD), close to the cumulative US total of all government-allocated foreign grants and credits of US$ 395 billion. Since 2009, China's annual total has exceeded or matched that of the US, suggesting an increasing trend in future (Dreher et al. 2017). China's concessional finance mainly targets Cuba and sub-Saharan Africa, while the commercial credits principally go to middle-income commodity producers, including Russia, throughout the Global South and in transition economies. However, and unlike the US, China cannot, at present, employ its home country capital markets—which remain small, opaque, and poorly regulated—to impose financial sanctions on other states.

In the first decade of the twenty-first century, the upswing in the international commodity price cycle led China to increase capital flows dramatically to producers of commodities, including bulk foodstuffs such as soya, wheat, and meat, as well as the fossil fuels and minerals essential to sophisticated industrial production. Most of these loans and FDI went to South America and Sub-Saharan Africa (EIU 2016; Irwin and Gallagher 2014). By the second decade, the focus of China's outward flows was shifting. In 2013, China announced the Belt and Road Initiative (BRI), an enormous portfolio of infrastructure projects for Eurasia, composed of six 'roads' radiating from China to the North, West, and South, as well as a mostly maritime corridor from Southeast Asia to Northeast Africa. These mostly bilateral projects (China and a neighbour) come with an enticing chunk of Chinese financing, and embody Chinese priorities, which include both improved commercial access and frequent national security quid pro quos, such as new military bases and the right for the Chinese Navy to dock at commercial ports built through the initiative. *The Economist* (2017) writes, 'This is the kind of leadership America has not shown since the post-war days of the Marshall Plan in Western Europe (which was considerably smaller).'

Moreover, China, today, is increasingly interested in pursuing structural power in the global political economy (Gracie 2017; Helleiner and Kirshner 2014; Roberts et al. 2017; Rudd 2017). In concert with its fellow members of the BRICS countries, China has used collective FS to pursue reforms of the voting and appointment processes and embodied economic ideologies within the IMF and World Bank. China also may be expected to become more assertive within other multilateral forums such as the Financial Stability Board (successor to the FSF) and G20. Alone or with partners, China has created new Southern-dominated multilateral financial institutions, including the

New Development Bank, Contingent Reserve Agreement, and Asian Infrastructure Investment Bank, all in 2015–2016. The other BRICS have supported China's push to internationalize the RMB and jointly promoted the inclusion of the RMB as only the fifth currency in the basket composing the IMF's quasi-currency, the Special Drawing Rights (SDRs), used for denominating IMF loans.

Shifts in Financial Statecraft in the Twenty-First Century?

While some have understood 'financial statecraft' as a subset of coercive economic statecraft, this chapter proposes applying the term to embrace the full range of foreign policy goals that may be pursued by a sovereign state via an incumbent government's manipulation of the credit, currency, financial institutions, and financial regulatory regimes that come under its legal jurisdiction or de facto reach. Such statecraft may be bilateral or collective, have immediate or longer-term aims, and may be pursued by means as varied as foreign aid, banking sanctions, exchange rate manipulation, attempts to shift other countries' reserve currency preferences, or participation in the design or execution of global financial governance.

The set of major players engaged in FS has evolved, as have the types of globally relevant financial resources on which these major states can draw. During the Cold War, FS was overwhelmingly dominated by the US and its G7 allies. However, since the early 2000s, significant new players, notably China, have joined this game. The material basis underlying the FS of the existing hegemon, the US, is the breadth, sophistication, and liquidity of its home financial markets, a financial power resource that continues to support the considerable path dependence in a global economy founded on a US dollar-exchange currency regime. But America now lacks the deep pockets that it did in the mid-twentieth century and is no longer the world's creditor. The advantage from having a large investible surplus, as measured by either domestic savings or foreign exchange reserves, now lies with China. China has become a major creditor state, while America is the largest debtor state, only partially due to its reputation as a 'safe haven' for mobile capital from nervous investors and governments worldwide. To the extent that constructing future global financial governance regimes requires commitment of real resources, in the future, China will play a larger role and the US a smaller one.

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3

Global Market Power

Helge Hveem

Global Markets and Power

The perfectly competitive market of neo-classical economics is hard, if not impossible to find in reality. One explanation is found in the standard Adam Smith observation that men of commerce seek to conspire against the public interest and pervert competition. Such agency, and others, condition, limit, or set aside competition. While work within International Political Economy (IPE) has contributed to the analysis of these forces that limit competition, recent contributions have seldom oriented analysis explicitly to the role and importance of *market power*. It has mostly been left to economists.[1]

This chapter aims to demonstrate how IPE may contribute to the study of market power. IPE is well endowed with its pluralism of perspectives and theories, and of methodological traditions. It would also profit from some

I am grateful to Dag Harald Claes, Eric Helleiner, Robert O. Keohane, Carl Henrik Knutsen, and Geoffrey Underhill for constructive critical comments. The remaining weaknesses are all my responsibility.

[1] Check the most read textbooks in International Political Economy (IPE) for specific references to 'market power'; Caporaso and Levine (1992) is one important exception, Strange (1988) to some extent another.

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works in neo-classical economics but, above all, make use of contributions in institutional economics, economic sociology, and anthropology.

I first offer definitions of market power and motivations for using it. I then review relevant literature on agency and structure and on how the two interact. I further propose that analysis of market power should be multilevel and include several agents—labour and consumers, NGOs and global institutions. Our main focus should, however, be on state and firms and on relations between them. I offer a few empirical illustrations of market power. I discuss the relevance of geopolitical rivalry and clashes between internationalization and nationalist tendencies for understanding market power. Finally, I address the apparent global shift to a digital economy. This shift presents great challenges to our understanding of the governance of markets.

Market Power

I see power as a sensitizing concept that 'points to a series or range of phenomena, but not in a manner that allows precise definition or measurement' (Bachrach and Lawler 1981, 44). Following Neil Fligstein's economic sociology approach, 'markets' are 'social arenas that exist for the production and sale of some good or service, and they are characterized by structured exchange' (Fligstein 2001, 30).

In neo-classical economics, markets are built on the idea that individuals are free to enter into contact with each other and to contract. To use power in the market is a strategy employed by one actor to reduce choice for others. In order for IPE to be more precise, it should adopt the three faces of power presented by Steven Lukes (1986). The first is the standard Weberian operationalization that defines power as the probability that an actor is able to get another or others to do what the actor wants despite resistance. Resistance can be overcome by persuasion, inducement (altering incentives), or coercion. The second face is power to control agenda setting; the third to control the minds and beliefs of actors. The second face is associated with what Susan Strange called structural power which, in her understanding of it, is a much broader phenomenon than just agenda setting. An actor with structural power is benefitted by the actions that others take in their own self-interest (Strange 1988), an example being the position of the US dollar at least until 2008. The third face identified by Lukes is inviting constructivist theory (Ruggie 1998; Abdelal et al. 2010). These three faces represent a menu of different modes of using power, to which we return later.

It is not always possible to identify which of these faces are at work, nor which is the most effective. When coercion (relational power) is used, it is often transparent. At the other end, 'conditioned power' represents a subjective type of relationship to power as 'neither those exercising it nor those subject to it need always be aware that it is being exerted' (Caporaso and Levine 1992, 173). Lukes asks rhetorically: 'Is it not the supreme exercise of power to get another or others to have the desires you want them to have …?' (1974, 22–23).

Market power is not necessarily used; it is also potential, not only actual power. An actor may have the resources but may not be able to transform them into effective power. Power, therefore, has to be based on certain resources *and* willingness to make use of them, *but* its effective use is dependent on the capability of agents to really *make* use of it. We may thus define market power as

> *the capability of an actor or combination of actors to influence the functioning of market directly or indirectly in order to achieve a goal set by that or those actor(s).*

Agency

In order to locate motives for using market power and the origin of these motives, we need to look at agency at different levels of social organization, political structure, and economic wealth. Markets are fields of interaction where relations among actors are embedded in social relations; actions make sense only when seen in the context of those social relations (Granovetter 1985; Fligstein 2001). Capital and labour, lobbies and political decision-makers, and the medium-sized as well as the big may all be actively seeking and using power. The use of market power, or threat thereof (potential power), are often associated with rational, self-interested agency. The assumption of rationality is, however, questioned even by economists; 'animal spirits' are highly influential in the financial sector (Akerløf and Shiller 2009). Among such spirits are risk-taking, corruptness, and antisocial behaviour. Moreover, if firms seek maximum profit, their strategy may be different if they pursue a shareholder value perspective from when they follow a finance view of control (Fligstein 2001).

A variety of actors can affect the functioning of markets, and thus have market power. The goal for firms is widely assumed to be maximizing profits, for labour to raise wages, and for nation states to increase wealth. Highly capitalized, large corporations, and the major economic powers are thus endowed

with potential power. So are special interest groups that lobby politicians and employees who cast their votes for candidates who defend their interests. These agents normally work through state institutions to defend their positions in the market.

Market power is revealed when agents pursue rent-seeking. Such agency is empirically proven by analysing *price formation.* Following Adam Smith's differentiation between 'natural price' and 'market price', market power is 'the ability to drive prices and returns above competitive levels' (Ennis et al. 2017). The most widely used measure is the Lerner Index (Lerner 1934; Elzinga and Mills 2011). It measures a firm's market power by relating price to marginal cost—the cost of producing one additional unit at any given level of production. If market price is well above marginal cost, it indicates that market power may be at work, or exploitation as critical analysis would call it. It *may* be; a high price margin may also be due to other factors such as inelastic demand for or limited supply of a product.

Other contributions in IPE, but also in sociological economy, emphasize other types of agency. For constructivist IPE, material gains are not the only motivation; uncertainty and subjectivity are important and increasingly so (Abdelal et al. 2010). Civil society associations are motivated by other goals such as environmental protection or human rights. They have contributed to push corporate managers as well as governments towards 'soft' profit-seeking, socially responsible conduct, and 'green growth'. These associations, as well as labour unions and others, engage at the same time in what John Galbraith called *countervailing* power; they attempt to check and balance the market power of corporations (Galbraith 1952).

Agency is often a response to change, to instability, to the dynamism of markets. Competition produces social-organizational responses from incumbent actors, both sellers and buyers that attempt to control against its worst aspects. Those aspects are not only the threat from invading firms but also the instability created by competition from other incumbents (Fligstein 2001). If markets are unregulated, incumbents with capability to do so will try to dictate terms to others: if they possess market power and do not have alternative market options in the short run, why should they not use their power if they are threatened with serious loss or outright disappearance?

However, power may also be used to create and protect a rules-based market that provides fair competition. This is hegemonic stability theory: the hegemon uses its power to establish a liberal world market and to control its functioning. However, Robert O. Keohane's influential *After Hegemony* demonstrates theoretically and empirically how institutions survive hegemonic decline, as egoistic actors learn to cooperate (1984). A powerful agent realizes

that its counterpart may be or is in a position to reciprocate if she makes use of her market power. Cooperation is particularly pursued by small- and medium-sized countries with no general power; they act collectively to invest power in multilateral institutions. For Talcott Parsons, power is a system resource that facilitates the achievement of collective goals (Parsons 1986).

Structure

What type of market structure facilitates the use of power? How do agents organize markets to exert it? These questions lead to several more: what exactly is the market? Is it sectoral; is it national, regional, or global? May we apply theory developed for a national market on an international market—that is, assume isomorphism?

When it comes to measuring market structure, economists often employ so-called concentration ratios (CR). CR is the ratio of the combined market share of a given number of actors in relation to the size of the market, normally operationalized to focus on the four or eight firms with the largest shares. An extension of the CR is the *Herfindahl-Hirschman index* (HHI) of market concentration (Hirschman 1945; Herfindahl 1950). HHI differs from the CR in that it squares each market share; this places a higher importance on the firms with the largest share. However, the classical text on market power (Chamberlin 1933) and later contributions (Baumol et al. 1982) argue that a relatively small number of firms may (under certain conditions) constitute a competitive market; they conduct what Chamberlin refers to as *monopolistic competition.* Each firm enjoys a monopoly on its product, but there are multiple products that consumers perceive as substitutes and which therefore give high elasticity of demand.

The HHI measure is primarily viewing concentration in a horizontal perspective, as a relationship between firms trading the same product. Concentration may, however, also take place through *vertical* integration whereby a firm takes control of an agent downstream (supplier) or upstream (buyer) (Perroux 1968). I return to this aspect later when we discuss value chains.

Many neo-classical contributions make assumptions about the structure of markets—no barriers to entry or exit, free access to technology, fully informed actors, and so on—that rarely hold. Actors may fight each other, conduct cut-throat competition; a highly concentrated market may illustrate Baumol's 'contestable market' model. Agency is key—structure is not sufficient to explain the occurrence of market power as many Marxists assume. Also, actors

never operate in a market completely free from the influence of society or politics. Governments 'underwrite technology, regulate competition, and adjudicate between competing firms …. (and) develop a great number of rules or institutions oriented toward governing markets' (Fligstein 2001, 12). However, type and degree of governance and government involvement vary across different national political systems (ibid; Lindblom 1977) and as we move from the national to the international level.

The economist's standard approach to 'market power', while still useful, appears to neglect the sociopolitical or political-cultural environments of markets. Markets are not only fields for economic transactions but also social and cultural fields subject to changes in ideologies and beliefs, and by changes in policy.

Since the 1970s, the state's capacity to regulate domestic competition and control the border, through tariffs and non-tariff barriers, was reduced by the turn to neo-liberal economic ideas that pushed economic globalization and successful General Agreements on Tariffs and Trade/World Trade Organization (GATT/WTO) liberalization. In some respects, multilateralism grew in strength during the same period. Bargaining became relatively less characterized by relational power, more by agenda setting and structural power. However, non-tariff barriers to trade rose as tariffs went down. Particular interests lobbied government to keep border regulations. At the same time, the state could behave strategically by accepting high market concentration in the domestic market in order to protect national industries against competition from abroad. With growing concern about loss of industry jobs and about trade deficits in key countries, changes in the very structure of the global trade system have come under attack. Globalization has become unpopular, as predicted in the Stolper-Samuelson theorem (Rogowski 1990), particularly among low- or non-skilled labour in developed countries. Since the turn of the millennium, this unpopularity has turned politics more nationalist and protectionist in several major countries.

Does this turn mean that agents in those countries are moving from ideational and structural-institutional (back) to relational market power? The United States' positions of strength in the financial and monetary systems and as a major source of foreign direct investments (FDIs) are well documented. Other resources for power over markets may be more of the conditioned power type, less transparent than the arms-twisting and horse-trading that would be typical of a bilateral bargain. Also, the growth of transnational production networks or value chains is arguably another less transparent arena for exercising market power. Financial firms establish extensive links (Coghalan and MacKenzie 2011) and, like firms that operate and manage production

networks, exercise *network power*. It is likely to diminish the role of border regulations and of competition policy inside borders.

Finally, one important reason why standard approaches to market power have become obsolete is the rapid *digitalization* of the economy, to which I return. It is probably the single most important factor in changing the ways we look at market power.

To sum up, CR, market share, or price margin are not exhaustive operational definitions of market power. They may still be valid measures of power in a national market segment with low import and inward FDI shares, such as in several service branches. However, the trends just mentioned make many products and some service markets international rather than national. Or will neo-mercantilist and nationalist tendencies turn the tide?

Strategies, Political-Economic Cultures, and Resources

In his influential book on economic power, David Baldwin sees power as relational. At the same time, Baldwin argues that scholars have been too occupied with 'Who governs?' and neglected 'By what means?' (Baldwin 1985). I would add 'For what reasons?'

Agents seek to organize markets for their own advantage. A *monopoly*, *oligopoly*, or *cartel*—several agents that conspire against the common good as Adam Smith put it—may work to that effect. A country with a high share of world exports of a product or a branch of products has potential market power and so have several countries in that position. However, *geopolitics* will always affect the use of such power. If two or three powers or power blocs are in deep political-military conflict, such conflict will prevent or at least strongly modify collusion between them and their respective firms.

Oil offers an illustration that the isomorphism assumption holds. While the 'Seven sisters' enjoyed market power in petroleum for several decades, Organization of the Petroleum Exporting Countries (OPEC) exercised a form of market power in the 1970s that is reminiscent of the profit-maximizing behaviour of firms doing price markups that well exceed marginal costs. The potential for developing countries to copy OPEC in other primary commodities was not present at the time (Hveem 1978) and has hardly materialized since. China's near monopoly on production and exports of rare-earth elements (REE), however, is a contemporary example of global market power.

I argue that effective state–firm coordination is not dependent on state ownership. One motive for firms to seek coordination may be to *exclude foreign competitors.* For home-market-based firms, it means lobbying the state to impose tariffs or quotas. It may also mean to acquire, or merge with, a competitor—to *include* it (by use of relational power). A large part of FDI, over the past decades, has been spent on acquisitions and mergers (UNCTAD 2016). Competitors may also be excluded with *predatory pricing*, whereby prices are dumped under marginal cost. The firm that engages in this type of conduct typically has the financial resources to be able to keep prices down for some time in order to obtain the intended effect. At the state level, predatory pricing is found in some types of *dumping* and subject to WTO regulations.

If private agents cannot organize markets on their own, they may *collude with the state* (and vice versa). A tight collaboration between a firm and its home state is likely to enhance market power for both; after all, the effective power of a state in international markets is to a large extent the result of the export performance and investments abroad of home-based firms. The way this collaborative relationship works, varies across political cultures (Lindblom 1977; see also Nölke (Chap. 9), this volume). In a polity where the *state* or a state-carrying party *is dominant*, such as China, the general view has been and is that collusion is very high (Lindblom 1977). There is widespread scepticism of state-owned enterprises, a scepticism which has been institutionalized in the WTO, OECD, and elsewhere. Collusion, thus, is not necessarily less likely when the firm is privately owned, and it manages to shape state decisions through lobbying (Ikenberry et al. 1988).

For Cox (1987) and others, labour is subordinated to capital's domination of the production structure characterized by global class struggle. *Dependencia* theories and the political credo of left-wing movements in Latin America and Europe have subscribed to this view. In several North European countries, however, firms engage labour in a tripartite *bargain* where the state plays the role of a broker, sometimes financier, a stabilizer that helps the two agents to compromise on growth with distribution. One major reason why the tripartite bargain has been established is that it is seen as a prerequisite for stabilizing and steering countries through a period of growing internationalization of markets (Katzenstein 1985; Olson 1982).

A third type of state–private relationship is the *semi-autonomous state,* illustrated by post-war Japan and South Korea. There is coordination between the state and private agents; the state bureaucracy conducts an industrial policy that supports, and sometimes guides, private agents. There is, at the same time, a certain distance between the state and firms, an 'embedded autonomy' (Evans 1995) as politicians and bureaucrats understand their

own limits, let the market work to create 'winners', and have a realistic view of the international economy.

If there is variety in state–private agency relations, there is also a growing cultural divide in how political institutions address structure as a market power issue. Since the 1970s, US competition authorities have given *priority to economic efficiency* over concerns with how use of market power by a dominant actor affects competitors. Consumer welfare and overall economic growth have become more important than the effect of market power on competition. Whereas antitrust was prominent in the first parts of the twentieth century, a dominant market position has become acceptable unless the activity of the dominant actor(s) is likely to diminish aggregate consumer wealth (Ahearn et al. 2008). The position and practice of the European Union (EU), on the other hand, remains tough with regard to control against 'abuse by one or more undertakings of a *dominant position* within the common market or in a substantial part of it' (Treaty of Rome, Article 82 (amended)). This apparent widening difference in antitrust practice has had a visible effect in those cases where both the United States and the EU, according to their agreement to exercise reciprocal competition authority, are in a position to take action against firms that operate internationally and that originate in the other jurisdiction. The fact that the EU has integrated trade and competition policy authorities gives the union, generally speaking, greater market power than each member state would have enjoyed individually. Thus, the EU competition authority barred merger between Boeing and McDonnell Douglas in the 1990s (Kovacic 2000–01) and imposed heavy fines on Microsoft and Google in the 2010s for abuses of market power.

Is size always likely to enhance market power? If it does, assuming that it has a considerable share of a given market, a large firm from a big state is likely to be able to exercise market power, whereas a small firm from a small country is not. Again, a dynamic perspective is warranted. The rapid economic growth and rising market shares of *emerging market economies* and several countries in the Global South indicate a corresponding rise in their market power. However, power does not always follow increased economic size. Small agents may be successful in a very specialized market segment or because they succeed in innovation. Finally, gains in international market shares may be due to other factors than an increased market power, for instance, simply straightforward competitiveness.

Sellers may face a buyer who enjoys *monopsony* power. Large buyers may, as Galbraith put it, countervail the market power of big suppliers (Galbraith 1952). An example of *countervailing* power whereby a state negotiates price with a firm, is the joint attempt by Norway's and Denmark's state drug

authorities to lower prices on a life-saving drug marketed by a monopolistic firm in 2017–18. Another strategy is to seek advantages through colluding with competitors, in a *duopoly* or *duopsony* (firm or state level), a *cartel* (firms), or in an *integration* project at the regional or bilateral (state) level. Shipping companies operated The Transpacific Stabilization Agreement in order to cooperate in reducing costs and defending carriers against piracy at sea. A borderline case between a cartel and a merger is the acquisition jointly by three South Korean shipbuilders of a French company in 2011 (Chalmin et al. 2012).

Knowledge Economy, Internationalization, and 'Network Power'

Innovation is a key to competitiveness. Drawing on this insight, Robert Gilpin (1975) emphasized the need to protect the result of US innovation from slipping abroad, into the hands of competing nations. Gilpin's concern was US security and power more generally. For Stephen Hymer, firms invest abroad in order to profit from a technology advantage by obtaining a monopoly position. Competitors would thereby not have easy access to it (Hymer 1976). The possibility that they still might led industrial lobbies in the United States, Europe, and Japan to use their governments' agenda setting and bargaining power in the Uruguay Round to establish an international regime granting monopoly rights, the Trade-Related Intellectual Properties (TRIPs) agreement in the WTO (Sell 2003). Its intention is to protect against theft and piracy, and thereby stimulate innovation. Intended or not, it may also make access to knowledge subject to tougher bargaining and higher costs, making development in poor countries more difficult in key areas (Hveem and Iapadre 2011).

The increased role of knowledge as a power resource has accompanied the growth of FDI and internationalization of production. These two, related shifts are reflected in firm management and inform many state administrations. They also tend to create increased variety within the labour force, and thus potentially increasing collective action problems within it. As I indicated earlier, low-skilled labour in developed countries protest against globalization. If they do not coordinate with capital, they may make themselves felt in electoral processes. If the political culture is dominated by the knowledge economy and the low skilled are marginal voters, the fact is that they may still decide electoral outcomes.

The situation at the end of the 2010s is one of opposing political-economic cultures. Globalizing agents are being challenged by nationalists and national economic interest by sectoral interests. The tendency to invest power to regulate global markets in multilateral institutions is giving room to opposing tendencies, in particular, in the United States and Europe. In the former, President Trump tweets: 'Trade wars are good, and easy to win.'[2] In Europe, a blend of nationalism and populism reflect opposition to liberal immigration and trade policies. Are Asian states taking over as defendants of the liberal global order, as Xi Jinping indicated to the World Economic Forum January 2017 that China wanted, while the US administration leads a move back to bilateralism and use of relational power? Or is Xi's pledge tactical or simply rhetorical, a cover up for China's true ambition which would be to increase its own power?[3] Is the Trump administration also simply playing excessively tough game in order to obtain concessions from trading partners, an 'aggressive unilateralism' that worked in the 1970s and 1980s (Bhagwati and Patrick 1990)?

Congressional Research Services (CRS) have not been heard when it warned against relying 'on traditional ways of calculating and analyzing the significance, in particular, of bilateral trade imbalances and country of origin labeling requirements. …' (U.S. CRS 2017, 25). They are right. Profit returns to the United States and several European countries on FDI and sales of knowledge products balance trade deficits. Transnational production networks or value chains replace manufacturing in one country; intermediate products account for a large part of world trade; and firms running these networks increasingly even locate innovation in their affiliates abroad. This gives the concept 'network power' a new dimension and arguably increased importance (Castells 2000). An example might be Apple's production of communication equipment. It is assembled in China, but parts, the intermediate products, are imported from several other countries, and design and key services are produced in the United States. Where in the chain is power located: with Apple certainly, but even with the provider of, for example, memory chips?

There are well-argued answers to such questions (Gereffi et al. 2005). However, the term 'network power' is still ambiguous. It becomes even more important to clarify it when we turn to the digital economy.

[2] *Time* Magazine, 19 March 2018.

[3] For a broad analysis of Xi's strategic ambitions, see Ross and Bekkevold 2016.

The Digital Economy

The exponential growth of computing power combined with the expansion of the Internet has laid the foundation for an exponentially expanding digital economy. It is by nature global and poses challenges of various types to regulatory authorities (see also Brass and Hornsby (Chap. 38), this volume). If digitalization of the financial system presents challenges to regulatory authorities, we may only have seen the beginning of challenges when all effects of the digitalization of the world are acknowledged. IPE is only beginning to understand them.

Politicians, regulators, as well as academics refer to a phenomenon that is built 'on top of' the digital economy—the rise of *Big data*, defined as 'the information asset characterized by such a high volume, velocity and variety to require specific technology and analytical methods for its transformation into value' (De Mauro et al. 2016, quoted in OECD 2016, 5). Size is achieved through intensive competition for customers to digitally based services, by high rates of investment in technology and innovation, and not the least by developing network effects. If size is not always a source of market power, the digital economy may be the exception, as 'successful, legitimate competition there tends to lead to monopoly more often than in other sectors' (OECD 2012, 6).

The key actors are those that establish a *leading platform* and from it build a network of customers. Platforms operate as the main interface between consumers on one side and various other market actors on other sides. Platforms are of two types. *Attention platforms* are mainly search engines and social networks, which provide services to individual users—services that are financed by advertising. Individual customers pay with their attention, their searching patterns, and purchasing habits, and these data are purchased by a variety of sellers but also public authorities. *Matching platforms* are marketplaces where sellers and buyers, employers and employees, or two individuals may meet. The larger the number of individuals and other users the platform provider may get on the attention platform, the more that provider can offer on the matching platform. While data are normally 'free', it is the process through which information is extracted from the data that generates the value. Platforms thus offer market power to those actors who develop and constantly improve 'methods capable of extracting valuable information from extremely large accumulations of (often unstructured) data' (l' Autorité de la Concurrence and Bundeskartellamt 2016, 8).

Let us be concrete. If stock exchanges' market value ratings are a valid indicator, these actors are the A*G-AFA*: Alphabet/Google, Apple, Facebook, and Amazon. They dwarf most incumbent industrial firms. Alphabet/Google

apparently is in a particularly advantageous position, whereas a former seller, Amazon, is entering the platform level and may challenge. Amazon's move is reminiscent of the upstream move known from the vertical integration literature. Moreover, the world's biggest retailer, Walmart, is also developing capacity to work through Internet and e-commerce. Following the two-level and firm-state analytical principles, the United States seems to dominate the digital economy.

Yet, this is not necessarily true. There is also *BAT*—Baidu, Alibaba, and Tencent, Internet giants that use the big and growing Chinese economy to build themselves up. China is currently by far the biggest e-commerce market, Internet user, mobile payments, and ride-sharing economy in the world (McKinsey 2017). BAT seems to strengthen China's position globally as it moves operations abroad.

Where these agents lead the global economy is an issue for future research. One hypothesis is that digitalization is so pervasive that it certainly has strong effects on the forms and the distribution of market power. Leading platforms, some of the AG-AFA and BAT, are in a winner-takes-all position as first-comers (OECD 2016). They can outcompete challengers by using their huge, minimally taxed capital reserves to beat them or buy them. They are already investing heavily in a variety of branches. The alternative hypothesis is that the AG-AFA and BAT are just individual firms competing with each other; they are likely to be beaten out of business by successfully innovating newcomers (Gawer 2016).

A third option is that the two dominant actors refrain from combat and converge in perceptions and behaviour. The United States and China are both aware, because their respective home-based firms are aware, that they compete for leadership positions in world markets. Although the two represent different state-firm regimes, they, therefore, tend to converge towards accepting efficiency and state support of platform firms rather than the perfectly competitive market. Monopoly is fine as long as it is *theirs*. Giving priority to effectiveness also means that the individual's right to privacy is less emphasized. Digitalization and globalization, therefore, go hand in hand with economic effectiveness in the national interest.

If one of the two does not take a decisive win, which does not seem very likely, are we therefore set for *duopolistic* market power? The position of potential challengers, the EU, India, and some of the other large emerging economies, does not appear as equally strong when it comes to developing an independent platform. India, with its strong Information and Communications Technology (ICT) base, appears as the most likely challenger. Is it therefore left to the EU to defend the competitive market and privacy rights? The digital economy is so dynamic that the answer may not be far ahead of us.

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4

Political Economy and International Economic Law

Marc D. Froese

In recent years, scholars working on international issues have become interested in the interaction between international relations and international law (Dunoff and Pollack 2013). Law increasingly structures international coordination, from humanitarian intervention to economic interaction and global efforts to ameliorate climate change. Alter (2014b) has studied the phenomenal growth of international court systems. Beginning with the Permanent Court of Arbitration established in 1899, there are now about two dozen permanent international courts (Romano et al. 2014, 9). International courts settle disputes, review national legislation, enforce international law (through a number of mechanisms), and hold state and non-state actors accountable for rule of law expectations (Alter 2014a, 28). Most international courts are only a few decades old. It is not an exaggeration to suggest that the phenomenal development of international law has become the primary defining feature of the post-Cold War global order (Stone Sweet and Grisel 2017).

Law is a primary feature of our research terrain in the study international political economy (IPE), if only because so much of what we study is framed by treaty and explained (at least in part) by legal interpretation. We understand how norms and rules structure multilateral trade regulation, regional integration, international investment agreements, and much of the global financial order (Bohanes and Garza 2012). Scholars who make their primary intellectual home in IPE frequently consider legal scholarship to be the third leg of the stool alongside

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political science and economics (Jackson 1994). Nevertheless, law, as both a tool for interpretation and frame for political action, is seldom a focus of study, at least on this side of the equation. Legal scholars have begun to examine the linkages between political economy and international legal scholarship. In the past several years they have begun to develop a political economy of law (Mattei and Haskell 2016). And yet IPE scholars have not fully come to terms with this quiet revolution in international economic law (IEL).

I will frame this discussion of law and political economy within the specific context of IEL, with a focus on trade law, where the development of IEL is far advanced. The first section examines the changing context of global political economy, and I will argue that global political economy has been steadily moving from a system in which law and politics coincide and interact to one in which politics takes place in a legal frame. The second section will examine two basic hypotheses about this shift from politics *and* law to the politics *of* law. I argue that the legal context of global political economy is defined by an increasingly central governance role for the World Trade Organization (WTO) and a developing role for market actors in the creation of law. These seemingly contradictory but mutually compatible propositions give rise to several questions about the future of democratic governance. Finally, I will consider the implications of legal development. I suggest that the study of political economy requires as much fluency with legal theory as it does with the ideas of political science and economics.

The Changing Context of Political Economy

The proposition that IPE specialists, while they may assume a major role for law, seldom place their own field of study within the larger frame of law is perhaps somewhat controversial. The most obvious response to that assertion is, so what? We are political economists and not lawyers, and so we study political economy and not law. Further, as political economists, we incorporate the insights of legal scholars, economists, sociologists, and anthropologists into our work on a regular basis. I would respond by acknowledging that this may be so, but we still study the global political economy with the basic assumption that power and wealth interact in a space beyond the state that is defined by anarchy or by hierarchical modes of production that are structured as much (or more) by power as they are by rules (Slaughter 2013). We frequently think of global economic interaction as taking place in regularized legal networks and subject to regulatory processes much like economic activity within the state but seldom conceptualize our research within

a multidisciplinary legal context. I am not arguing that the development of IEL has progressed as far globally as it has nationally, but I am suggesting that we have reached a tipping point, and we can no longer study political economy as if law is not a fundamental organizing factor (Koskenniemi 2011).

This shift to a system that is defined by a deepening web of economic law has been noted by a number of legal scholars (Marceau 2015a). Petersmann recently suggested that the regulation of global trade has shifted from a system typified by 'rule by law' to one based on the rule of law (Petersmann 2015, 182). Rule by law suggests a governance terrain where state actors understand the rules of the game and believe it to be in their own enlightened self-interest to respect the existing rules while playing a constructive role in creating new and increasingly effective systems of governance. This description adequately captures the place of the General Agreement on Tariffs and Trade (GATT) in global trade governance prior to 1995 or the system of bilateral investment agreements that continue to govern investor-state relations.

The rule of law is something of an entirely different order of magnitude. Just like the legal systems that typified the postwar trading states, IEL provides the form and enhances the function of the compromises that allow for the effective operation of a liberal economic order. The rule of law suggests a system in which law is explicitly recognized for its role in maintaining order, structuring relations of competition and community, and in providing fair modes of mediation when relationships break down (Trubeck 2009). This description captures the place of the WTO's dispute settlement system in global trade governance and the place envisioned by Canadian and European diplomats for an international investment court that may soon replace the older and less politically legitimate system of investor-state dispute settlement (Howse 2017). Law is no longer a good thing to have; it is now becoming the context in which international economic relations take place.

Despite the growing centrality of law to the study of political economy, there are good reasons for our relative ambivalence—at least among those of us who study trade. The postwar system of trade governance was predicated on a multilateral system that downplayed the role of law in postwar order. Roessler, the former director of the Legal Affairs Division at the GATT/WTO from 1989 to 1995, recalls a meeting in the early 1970s in which he asked about the absence of a legal affairs department at that time and was told, 'You know Frieder, people here do not believe in law. They believe in pragmatism' (Roessler 2015, 161). The management of trade challenges was an issue for diplomats and negotiators, not lawyers and judges. Marceau has recently charted this slow shift from a postwar trading system in which challenges were surmounted by political compromise to one in which regulatory rules have

become determinative and the WTO has become a politically legitimate and legally authoritative system of governance (Marceau 2015a).

International legal frames now shape both state competition strategies as well as the market-opening and business consolidation strategies of multinational firms. Global value chains are predicated upon a robust network of law with which to govern the many relations and transactions that comprise them (Gereffi et al. 2005). Furthermore, the rise of regional trading powers has been largely organized by multilateral and bilateral agreements that facilitate global economic integration (see Krapohl (Chap. 6), this volume). While geopolitics, technological development, intellectual heuristics, and public policy advances are important ways to think about economic interdependence, markets cannot exist without regulatory frames. Without robust regulation they trend towards instability, as Polanyi argued in 1944 (Polanyi 2001). Even so, from open-economy politics to the neo-Marxist frontier, scholars must now have a basic (and frequently a somewhat advanced) understanding of customary international law, legal norms, regional and multilateral treaties, not to mention the substance of those treaties and the outcomes of relevant arbitral tribunals (Lake 2009).

Political Actors and International Economic Law

If we are to consider law as terrain of political economic conflict as well as frame for political economic compromise, we must consider the how and why of legal development. Legal scholars study the content of law, its doctrinal and comparative significance, and the history and future of its developmental and functional logics (Rittich 2005). From a political economy perspective, the questions are about political agency: who creates law, and in whose interest is it deployed? The traditional answer is that states create IEL, and they attempt to deploy it according to the logic of the national interest. This basic assessment carried much water in the early years after the Second World War, but the system today is much more complex. Indeed, states are still the subject of much international law and play a dominant role in its development. Most importantly, they are also the most broadly legitimate actors operating in the realm of IEL, but they are no longer alone; they have been joined by market actors and intergovernmental organizations (IOs).

Governments use multilateral organizations to coordinate legal challenges and develop strategies for using the new legal environment to its best effect. These legal strategies may be in the interest of the governments themselves

(e.g. for coordination purposes) or they may be activated in the service of citizens or in the service of economic interests, that is, in the interest of jobs and/or national wealth or prestige. Some of the leading-edge research suggests that states recognize that legal frames themselves are strategically rational goods. Ohlin has argued that the neoconservative critique of international law which emphasizes the irrationality of respecting law when it contravenes governmental priorities misses the larger point that legal constraint is crucial to the health of the international system. 'Why accept the constraints when a world without constraints beckons like a siren's song? The answer, of course, is that rationality both permits and demands fidelity to constraints' (Ohlin 2015, 229). The political conflict between interest and constraint articulated by Goldsmith and Posner misidentifies the functional basis of international law because respect for legal constraint is a form of enlightened self-interest (Goldsmith and Posner 2005). Even so, the quality of the argument for legal restraint based on a stake in lawmaking varies according to the state under discussion. Some countries, such as the US, have made a practice of both making rules and flouting them when the need arises (or the presidential administration changes).

The role of states in legal development is very well understood, but the place of markets is much less so. Legal scholars have begun to ask about the role of the market in legal development. In the past decade, the microeconomic basis of economic theory—the rational individual—has been similarly theorized as the basis for law (Trachtman 2008). This vein of research includes well-developed literatures on the role of economic actors in shaping the legal agenda (Franck 2005), as well as new work on the role of markets themselves in delivering regulation (O'Hara and Ribstein 2009). The main idea animating the market-for-law hypothesis is that the economic forces of supply and demand structure legal preferences. The market-for-law thesis suggests that even though economic interests are mediated through the state, it is important to distinguish between the interests of governments to create coordination efficiencies and the interests of firms to create laws that they think benefit present and future business practices (see also Büthe (Chap. 28), this volume).

It is also important to consider the interests and actions of economic actors as distinct from those of states because firms and other economic actors operate across levels of organization and through multiple avenues of agency. At the national level, they lobby governments to initiate state-to-state dispute settlement at the WTO, for example. At the international level, firms use investor-state dispute settlement mechanisms to create

binding arbitral decisions. The use of arbitration mechanisms by economic actors and states produces a set of unintended legal outcomes that empower IOs because the large number of disputes in trade and investment domains requires that organizations develop the case law tools used by domestic courts to organize and rationalize a large body of case law (Cohen 2015a).

Indeed, IOs have also become drivers of legal development, alongside the governments of prominent states (Bogdandy and Venzke 2014). IOs drive legal development in two ways. First, their juridical arms require an autonomy like that of national courts to make sense of many cases as well as to develop the rules necessary to make decisions in legal cases that are becoming more complex. Autonomy requires the court to be legitimate and authoritative in a way that separates the will of the court from that of its state sponsors. This autonomy is necessary to maintain the legal authority of the court, but it naturally leads legal professionals in international courts to pursue the development of these courts much in the way that they would at the national level, through the creation of rules of evidence and the use of precedent to ascribe a settled meaning to cases.

Second, the use of precedent suggests that IOs may play a role in making law because ascribing meaning to previous cases shapes the legal reasoning available in future cases. Many of the legal texts upon which panels rely are open-ended and designed to meet the needs of multiple stakeholders. In fact, some scholars suggest that the openness or what they term 'incomplete contracting,' is a design feature, rather than a flaw because it facilitates flexible interpretation. Nevertheless, formal authority to determine the meaning of legal texts lies with the WTO's Dispute Settlement Body, which is composed of all the membership (Jackson 2006, 173–177). But short of reinterpreting the meaning of the text, there is a great deal of latitude in which dispute panels may determine the meaning of previous cases and apply them to current issues (Pauwelyn 2016). In this way, Bhala has suggested that the WTO's dispute settlement system has a limited lawmaking capacity (Bhala 1999).

These three actors—state (or governmental) actors, market actors, and IOs—play a determinative role in the development of IEL. In the section that follows, I suggest two hypotheses that speak to the growing importance of IEL as well as to new developmental trajectories and new ways to think about law in a system that is simultaneously defined by states even as they play less of an immediate role in the development of law.

Two Hypotheses about Legal Development in the Global Political Economy

Two hypotheses examine the multiple paths through which legal development takes place in the global political economy. They suggest the breadth of future research potential in the politics of IEL. The first hypothesis suggests that counter to the conventional wisdom, the WTO is becoming increasingly central to the project of international economic legal development. The second hypothesis argues for a growing role for markets and market actors in legal development. Non-governmental actors in the global legal arena include corporations, non-governmental organizations, social movement leaders, non-governmental think tanks, academics, and other members of the large legal epistemic community. Together, these two hypotheses suggest some of the research potential for a political economy of economic law.

Hypothesis One *Intergovernmental organizations such as the World Trade Organization are drivers of legal development and play a major role in creating legitimate and authoritative governance in the global economy* (Hurd 1999).

The idea that the WTO plays a central (and centralizing) role in the regulation of the global economy is somewhat counterintuitive despite the stated aims of the institution (Steger 2004). The failure to conclude the Doha round and the rise of hundreds of regional trade agreements suggested to many pundits the WTO's impending irrelevance. I disagree, and I have shown elsewhere that far from having a fragmenting effect, the rise of regional trading arrangements has further cemented the place of the WTO at the centre of an expanding web of law (Froese 2016). There are two main ways that the WTO plays a central role in the network of IEL.

First, it is a one-stop shop for negotiation and dispute settlement. The WTO's practices in these areas have become the basis for much of what has come later. Most dispute settlement mechanisms in regional arrangements are patterned after the WTO system, and these regional mechanisms tend to exclude issues where the WTO has compulsory jurisdiction. Further, what to some trade watchers appears to be the failure of the Doha round, to others it looks like the consolidation of the WTO's expanded institutional mandate. The WTO has institutionalized a shifting balance between secretariat consolidation and biennial ministerial meetings that may help to push forward the negotiating agenda in many small and incremental ways. The

Trade Facilitation Agreement that came into force in February 2017 is a good example. This new institutional balancing act is not conducive to swift liberalization but brings halting gains. And this is the surest way forward for an organization with 164 members that has come to define big tent multilateralism.

Second, the WTO's legal mandate gives it compulsory jurisdiction over the regulatory areas covered by its many agreements, a development common in post-Cold War international courts. Compulsory jurisdiction means that the WTO has jurisdiction over all issues covered by its agreements, unless a complainant agrees to resolve the issue elsewhere. Furthermore, responding members may not refuse the jurisdiction of the WTO nor may they block the acceptance of final decisions made by panels and the Appellate Body (Marceau 2015b). Compulsory jurisdiction has greatly increased the effectiveness of international courts across the terrain of international law, and the WTO is no exception.

Hypothesis Two *There is a growing role for non-governmental actors in the development of law beyond the state.*

There are two different categories of non-governmental actors that shape IEL—market actors and civil society actors. In turn, market actors may be divided into three broad subcategories. The first are commercial agents such as multinational corporations, banks, and other investors, large and small. The second are economic actors that signal market behaviour, such as bond rating agencies and stock market indices. The final market actor is the invisible hand itself, the forces of supply and demand that play a role in shaping the regulatory environment. The role of large commercial agents is well understood, and scholars of financial regulation have produced a great deal of recent research about the place of market-indicating agents in global political economy (Johnson 2016). But much less has been written on the role of supply and demand in structuring regulatory environments. O'Hara O'Connor and Franck have suggested that the regulation of international investment resembles a market for law in which market actors shop for regulation they prefer in an international marketplace (O'Hara O'Connor and Franck 2014).

Scholars of investment have characterized the bilateral system of partly private enforcement mechanisms as one with roots in nineteenth-century imperialism, twentieth-century decolonization and have even suggested that it might be a nascent form of bottom-up multilateralism (Schill 2009). But

the assertion that a system of policymakers and policy takers in which some of the primary actors are international investors in a marketplace for regulation bears further scrutiny—primarily because political economists have frequently valorised or demonized the role of economic forces in shaping the global political economy, but comparatively less work has attempted to locate specific impacts of market dynamics on the form and function of regulation (Miles 2013).

Civil society actors are the second category of non-governmental actors that shape IEL. This group includes public interest and market-oriented actors such as NGOs, think tanks, academics, and domestic industry groups. They impact the development of law in a variety of ways, most often using their expertise in legal issues to press for new regulation, reform, or their preferred outcome in international arbitration. For example, non-governmental groups have submitted amicus curiae briefs in 30 cases brought to the WTO since 1998. The amicus curiae brief is a common-law tradition in which experts who are not party to a dispute respond to requests by the court for analysis relevant to some aspect of the case (Steger 2002). Over time, it has become a way for a variety of public interest and industry groups to submit material to the panel that they consider relevant to the case. This right to submit is most often framed as a way for public interest groups such as Greenpeace or public law scholars to make their voices heard in IEL. In disputes with amici curiae submissions, 44% contain submissions from groups or individuals that could be broadly defined as belonging to civil society. This suggests that when we consider the non-governmental actors who help to shape IEL, we ought to cast our net widely because domestic business interests play a broad role in legal development in a variety of arenas (Squatrito 2017).

For each of these groups (market actors and civil society actors) we may chart direct, indirect, and attenuated roles in legal development (Johnstone 2013). For example, investors who sue under an investment agreement and create precedent may directly influence the path of law. Indirect roles for legal development may include the influence of NGOs or business interests on WTO dispute settlement through the submission of amicus curiae briefs. Attenuated roles in the legal developmental process usually include observation and transparency mechanisms that allow the interested members of the public to observe certain WTO panel processes, read panel decisions, and comment on them in the media or in scholarly or professional publications.

Implications for the Study of Global Political Economy

Adding law to political economy offers new ways to think about the roles and limits of national democracy, citizenship, and public representation beyond the state. We often think of democracy in terms of direct and indirect participation, but legal studies remind us that the attenuated roles of citizen participation in law courts is often just as important for the legitimacy of legal modes of order beyond the state. From this perspective, the growth of IEL has three main implications for the study of IPE. First, it has implications for political economic methods. Second, it has implications for theory. Finally, there are conceptual implications.

Considering the implications for IPE method, I have argued elsewhere that rather than thinking of IPE as interdisciplinary, we ought to think of it as multidisciplinary, with law and legal theory making up as much of our theory and method as do political studies and economics (Froese 2018). This requires that we consider thoughtfully the role of legal scholarship in IPE. There are at least three bodies of literature that may benefit IPE scholars looking to integrate legal insight. First is the politics of law literature, which examines legal development in the context of national political change (Kairys 1998). When this literature is read in the context of the international, it offers a fascinating view of the ways that legal reasoning shapes procedural and substantive outcomes and the way that politics and law interact to shape the means and ends of each.

The second is the political economy of law literature, which places international law in the contexts of national and global political forces (Fabbricotti 2016). This literature has a normative dimension that emphasizes the impact of legal rule-making on political economic outcomes. In a world of increasing economic inequality, scholars ought to examine the role that law, in both its public and private variants, plays in the dynamics of global wealth (Gill and Cutler 2014). Finally, there is a budding literature on the role of legal practice in shaping global governance. Cohen and others argue that the assumptions of lawyers and judges shape international legal practices. For example, international courts take the shape of domestic courts because the same actors populate both (Cohen 2015b; Cho 2016). Lawyers are perhaps the dominant agents in the global political economy today, and ideas and norms that shape their professional lives also shape the global political economy to a great degree (Luff 2016).

Taking law seriously means acknowledging the increasingly large role played by legal rules, tribunals, agencies, treaties, and adjudication mechanisms in shaping global political and economic processes (Alter 2014b). It may also mean that students of IPE recognize that we can no longer effectively imagine a world in which power and wealth interact in anything resembling the vacuum of anarchy, if such a state of nature ever existed. While power may flout legal rules, the thicket of law ensnares even the most powerful states in many large and small ways. The methods we use to study IPE ought to place significant emphasis upon law as an increasingly important intervening variable.

There are implications for IPE theory as well. Constructivist and liberal accounts of the global economy emphasize the ways that ideas and values become building blocks for norms but don't always pay a great deal of attention to the legal rules that act as conduits for the transmission of those ideas. For example, legal theory offers a more expansive understanding of rules, their application, and the meaning of winning and losing. Functionalism offers a historically grounded and subtle way of thinking about why institutions look like they do. Functionalist legal theory offers historical institutionalism, for example, a grounded and rational approach to building explanations for the trajectories of development exhibited by rules-based institutions (Hall 2010). Taking legal theory seriously also suggests that we need to reconceptualize the ways we think about the delegation of sovereign authority. Rather than thinking about sovereign transfers in terms of contracting, it might be better to think of the flow of sovereignty in terms of an investment in the rules of the system, which in turn take on some of the features of state sovereignty (Cooley and Spruyt 2009).

In conceptual terms, legal thought shifts research in IPE in several directions. It offers different ways to think about institutions, drawing our attention away from questions about the rules of the game and offering a subtler way of understanding the impact of legal development on interests, norms, and values (Jemielniak et al. 2016). It also offers a different way to think about the motivations of actors. For example, Pelc shows how legal strategies structure governmental approaches to global trade regulation (Pelc 2014). Legal studies also offer a different way to think about ideas around power and leadership. IPE ought to consider new approaches to theorizing the relationship between political legitimacy and legal authority, especially as these conceptual touchstones shed light on the relationship between states and IOs.

Conclusion: The Legal Gestalt

In this chapter, I have advocated that we, as scholars of IPE, ought to engage deeply with legal studies and allow that engagement to transform our research in large and small ways. We ought not only to take legal studies as the third leg of our theoretical and methodological stools, but we ought also to consider what IPE might look like if we place our study of political economy into a legal frame. I would like to also suggest that, even as we consider this legal gestalt, we also apply the study of political economy to IEL itself. Not only is the study of political economy shaped by its legal context, but the law is also shaped by political economy. Nourse and Shaffer refer to this double movement as the simultaneity of law and politics (Nourse and Shaffer 2009).

A multidisciplinary approach recognizes the symbiotic relationship between international law and political economy and offers a multitude of new ways to deepen our theoretical contribution and refine qualitative and quantitative methods. The legal gestalt also offers us a different lens on familiar issues, such as the plight of the WTO or the place of non-governmental actors in institutional development. But I am not arguing for conceptual novelty for its own sake. Given the dynamic shift towards deeper forms of governance integration in the domains of trade, investment, and finance, a politics of IEL is the necessary next step in the evolution of the field of global political economy.

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5

Varieties of Global Governance

Timothy J. Sinclair

Introduction

When NGOs talk about the need for the international community to review what went on in the Sri Lankan Civil War, when consumers complain about the rising cost of food and clothing, and when states debate military action against regimes, we can be sure that the idea of global governance will be invoked. Unfortunately, the substance of global governance is often far from clear. For some users of the term, it means unified action against specific threats, for others merely a framework of rules and norms. Other groups equate global governance with tyranny or a conspiracy to establish world government.

Before we can be effective advocates of global governance, if that is our objective, it is essential to clarify the range of thinking about global governance. This requires we put aside the idea that global governance is an agreed notion, self-evident to all, and come to grips with the diversity of thinking on global governance. In this chapter, I review three competing ways of thinking about global governance: transnationalism, cosmopolitanism, and what I call hegemonism, based on a more comprehensive review of approaches to global governance (Sinclair 2012).

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Transnationalism

Transnationalism is my name for a way of understanding global governance that focuses not on international institutions or national states themselves but on other agents and processes. In this sense, the focus of transnationalism is not so much on the basic causes or features of global governance but on intervening variables that affect or modify global governance. Influenced by liberal international relations theory and constructivism, transnationalism is driven by a sense that the mainstream story about international relations, which focuses on relations between states, does not capture all of what is going on in the world, even when it gives attention to international institutions (Risse-Kappen 1995). Perhaps just as important for many is a concern that global governance marginalizes large numbers of people, especially the poor and those with no voice who seemingly have little capacity to shape global governance, despite the many problems they need to overcome. For these people, transnationalism suggests there is another global political process taking place not purely dominated by elites (see Nederveen Pieterse (Chap. 15), this volume).

One of the challenges for those interested in understanding the role of social movements and other transnational agents in world politics is that none of the established theories of international relations took these forces seriously for decades. Even path-breaking work that professed to be focused on transnational issues, such as that of Keohane and Nye (1977), did not consider social movements or what Keck and Sikkink call 'advocacy networks' (1998). The origins of this problem lie in the rise of Neorealism (Waltz 1979). Waltz suggested international politics was governed by a lack of overarching authority or what he called the condition of anarchy, which made states unitary actors and meant other possible actors were only of marginal interest. This intervention triggered a fierce debate, with much of the Liberal school eventually capitulating to the notion that anarchy was crucial and that the system was therefore more state-centric than they had previously considered. Ideas were relegated to a residual variable (Goldstein and Keohane 1993).

Transnationalism encompasses a mix of more empirical social scientists who want to identify neglected agents in world politics, more activist scholars who want to encourage this means of making change, as well as activists more generally in the developed and developing world. The self-concept of all these individuals is that transnationalism, whether conceived in terms of advocacy networks, civil society, or social movements, is a force for good. Schechter has suggested that a distinct policy-relevant critical theory can be identified

(Schechter 1999: 247). The practical engagement this implies fits transnationalism well.

Transnationalism has an interesting view of what matters in global governance. In focusing below the state, it suggests domestic activist organizations are relevant to global governance. This opens up the ontology of global governance to local and small-scale groups that would barely be considered by other worldviews. Above the state the focus is on transnational networks that incorporate these local movements. How these transnational networks are organized and how they interact with states and formal international institutions such as the IMF, World Bank, and WTO are of great concern in transnationalism. States of course are of concern too but not the primary focus.

Legitimacy or the lack of legitimacy is a major focus of transnationalism. Are institutions that make policy thought to be doing so on a consensual basis, or are they coercive? Transnationals look closely at the political basis for policy, assessing its viability in these terms. For them, good policy is legitimate policy and bad policy is opposed by key actors in global civil society. Alternative structures such as the World Social Forum are considered relevant if they can develop more legitimate policy choices than mainstream institutions.

Ideas and norms are important. Klotz shows how opposition to racial discrimination in South Africa was mobilized over two decades. Governments, NGOs, and individuals came to agree that what was going on in South Africa was unacceptable. She argues that from as early as the middle 1960s there was a 'global norm of racial equality' in the world (Klotz 1995a: 6). South Africa was in gross violation of this norm. She goes on to suggest that Realist arguments about national interests (and Marxist arguments about material incentives) ignored the ability of activists to reconstitute US interests as congruent with prevailing global norms (Klotz 1995b: 453). Norms are vital because norms can change thinking about what we believe our interests to be. Realism and Marxism assume ideas transcend human cognition. But interests are not defined only in brute material terms but in broader social and political terms that are just as real to the people involved (Klotz 1995a: 11).

As the norm of racial equality became more and more universal and racist arguments became illegitimate, NGOs, the EU, and the (former British) Commonwealth of Nations pushed states, especially the US and Britain, to adopt sanctions. Change came from the bottom-up, but was supported by what had become a vital and unquestionable 'global constitutive norm' as Klotz puts it (Klotz 1995a: 165). What we have here is a dynamic of global governance premised on transnational forces in coalition against a state, making use of a norm to which there was no reasoned response. Not only do global social movements like the anti-apartheid movement matter in world

politics, but when allied to new universally adopted thinking they can become very powerful forces of progressive global governance.

Given the complexity of explanation in transnationalism, we do have to ask where power resides in this approach. Barnett and Duvall's (2005: 46) 'productive power' acknowledges the effect of power in shaping the identities of the parties involved, disciplining them, making them into what they become. Transnationalism does acknowledge power in this specific way as we saw in the Klotz discussion of apartheid, but it is also light on simpler relational or behavioural conceptions of power, in which A gets B to do what B would not otherwise do. It is harder to see these direct forms of power in transnationalism.

An intriguing part of this embrace of politics is much greater attention to the role of ideas and norms. As the apartheid case demonstrates, ideas and norms can have real and significant effects on governance (see also Schirm (Chap. 7), this volume). Rather than being ephemeral, ideas and norms, when held intersubjectively, that is, between people, can have powerful effects. People come to consider such norms to be facts, like other facts about the social world which they base their actions upon, such as the state.

Transnationalism is a positive conception of global governance. It suggests improving the world is possible and developing the means of global governance can be achieved. We cannot eliminate capitalism or the state system, but we can make things much better not just in aggregate terms but in a liberally distributed way. Although there are differences within transnationalism, the approach seeks ambitious levels of change within the norms of the existing state system.

Cosmopolitanism

Cosmopolitans are an important group of theorists interested in global governance. They take a much broader and more optimistic stance on global governance compared to transnationalism, looking at its potential for human development and progress. This account of global governance is more concerned with the potential for the reform of institutions and human relations, and cosmopolitans are less willing to accept a limited problem-solving view of what global governance can achieve.

Unlike many trained in international relations theory, cosmopolitans do not start with sovereign states in an unchanging world of anarchy. The very environment in which global governance is taking place is changing in the cosmopolitan view. Mainly based in universities, think tanks, and philanthropic

institutions, these analysts take a more systematic view of the response to globalization, suggesting that substantial modifications to existing governance systems are necessary, given the change to our world. Informing their analysis are strong normative commitments to deeply held values associated with individual liberty, democratic representation, equality, and social justice on a world scale.

There is a grand vision of change implicit in the cosmopolitan concept of global governance. What seems to drive these reformists is a concern that global change is both encouraging the idea that democratic choice is legitimate and should be available increasingly to all and at the same time constraining the choices available to national governments as the pressures of globalization hinder their local policy-autonomy (Held 1995: 21). It is as if a buffet of menu options is available to all, but nobody can afford the increasingly steep price of the meal. In this context, global governance is seen as an important means through which change, which seems to just happen to us, can be adapted to human purposes. It is only through global governance that the human population can effectively tackle these global forces, which increasingly are too big for national governments.

The purpose is a critical one, to transform the status quo, but it is a limited critical purpose, in that the target for adaptation is not globalization, which is thought to be effectively unstoppable, but rather the global governance mechanisms that deal with the consequences of globalization. So, rather than transform the fundamentals of the social world, as Cox suggests is the purpose of critical theory, like transnationalism, they fit Schechter's notion of a policy-relevant critical theory (Schechter 1999: 247). It is this more amenable purpose which fits the cosmopolitan vision of global governance.

Cosmopolitans have become interested in global governance because the concept helps them address the authority shifts so characteristic of the world since the end of the Bretton Woods era in the 1970s. For many traditional international relations scholars, only states really matter in world politics because there is no overarching authority above states. This makes states self-regarding and the key actor. But outside the field of international relations, this view of an unchanging world of states is not so easily embraced. Cosmopolitans embrace a much wider view of what are relevant phenomena than Realists. Many different forms of human association are potentially relevant, including business firms and social movements.

Unsurprisingly, government at all levels, local, national, and international, feature as major actors in the cosmopolitan conception of global governance. Although the cosmopolitans respect expertise and the application of science, they have a much greater appreciation of the role of politics in the success of

policy. Global governance is not just about finding out what the right answer is. The right answer may well involve the acceptance of that answer amongst many different groups of people.

Politics is understood as an ever-present element of social life and therefore part and parcel of global governance. Politics is understood by cosmopolitans as a system-reinforcing phenomenon. Government is clearly privileged in this understanding of global governance. But unlike technocrats, cosmopolitans do not over-privilege government. Because of their analysis of globalization, they understand authority relations to be changing and that an effective global governance analysis will be based on a wider set of actors than just government.

The cosmopolitan conception of global governance is a positive and optimistic view of how the world and its institutions can be changed for the good of all. This conception of global governance is premised on confidence that wide and deep change is possible and likely. Although a much broader and less practical approach, the cosmopolitan conception offers a brighter and better future. Because of this, cosmopolitanism is an attractive and potentially popular conception of global rule, which should appeal to a much broader audience.

Political mobilization around cosmopolitan ideas needs to be considered seriously. The sort of ideas that form the background for this thinking have motivated political parties for more than a century, and these parties have changed domestic policy greatly in developed countries, introducing workplace laws, minimum wages, and welfare legislation. One implication of cosmopolitanism at the global level might be developments of this sort, creating a social safety net, but on a world scale. A development like this would pose a major challenge to modern capitalism, used as it is to scour the globe in search of the greatest advantage to itself in terms of costs.

This approach offers a real challenge to the tradition of state sovereignty the world has been familiar with since the Peace of Westphalia in 1648. In bringing in a whole series of new actors, it promises to rewrite the rules about what matters in international relations. Central to this challenge are the role of new agents in world politics such as non-governmental organizations and global business. They are understood as disruptive and able to bring about both positive and negative consequences for humanity. It is up to us to make sure, via global governance, that the positive outweigh the negative.

The major place you will find expression of this conception of global governance is in the views of non-governmental organizations, especially those with interests in the developing world. It is fair to say that the emphasis on knowledge, the legitimate role of politics and the importance of fairness and global justice is almost the common sense of our age as far as civil society

organizations are concerned. In as far as the United Nations' Millennium Development Goals place emphasis on gender equality (MDG 3), we can also find some evidence of the application of cosmopolitan principles inside intergovernmental organizations as well.

Outside these venues the best place to identify cosmopolitan influence on global governance, or at least global governance debates, is in social democratic parties, especially in Europe but also in parts of the developing world. The search for a 'third way' between neo-liberal market capitalism and the state capitalism of 'actually existing' socialist regimes of the past has been the context in which concerns about global governance have been articulated (Giddens 1998).

Unlike some other ways of thinking about global governance, the cosmopolitan approach is one of responsibility and action. It does not accept that outcomes are natural. Even if there is little we can do to stop globalization, we can shape it and how it affects the poor so that it does not disadvantage them. Moreover, the approach says it would be irresponsible not to intervene to shape globalization. Irresponsibility is morally wrong but also inefficient, just as it is inefficient to fail to regulate malfunctioning markets.

The immediate future importance of this approach to global governance depends on global geo-political events as well as the veracity of the thinking behind the approach itself. As a highly political approach, it faces considerable opposition from critics based especially inside the US. But it is this political quality that gives this approach its vibrancy and tendency to ask difficult questions. This gives cosmopolitanism an enduring appeal to many (Table 5.1).

Table 5.1 Varieties of global governance

	Transnationalism	Cosmopolitanism	Hegemonism
Purpose	Policy relevant, but critical	Critical, but policy relevant	Critical, transformative
Actors	Social movements; transnational networks; international institutions	Many forms of association such as global businesses, governments, NGOs	Social forces linked to capitalism; states
Assumptions	Wide legitimacy of policy essential; intersubjective ideas important	Tackle global change via growth of democracy	Exploitation and inequality dominate our world; ideas matter as political devices to maintain or challenge hegemony
Power	Structural forms more important than relational forms	Relational forms more important	Structural forms are key; but relational power is an everyday experience

Hegemonism

The contemporary left critique of global governance does not reject the concept of global governance altogether. Instead, situating globalization and global governance within the capitalist system, which they understand to be a social mechanism with its own laws of motion that stretch across the planet, the hegemonists suggest *actually existing global governance*, as opposed to an ideal of global governance, is very much tied to the prevailing social and economic structures of exploitation and inequality that dominate our world. This gives their analysis of global governance an immediacy and relevance in the face of crises in production, finance, and consumption that the other ways of thinking about global governance struggle to match. Although a very grounded approach in this way, the hegemonist conception of global governance remains a very politically focused way of thinking.

Since the late 1960s, a more open and flexible form of Marxist analysis, loosely motivated by the thinking of Gramsci on the role of ideas, has emerged in the study of international order. This work has been associated with the conceptual writings of Canadian political scientist, Robert W. Cox. Cox, a scholar and practitioner of international organization in the 1950s and 1960s, including more than two decades in the International Labour Office in Geneva, produced a series of seminal works in the 1980s, which inspired a generation of studies of global governance (1987, 1996) by writers including Stephen Gill (1990), Craig N. Murphy (1994) and Kees van der Pijl (1998).

The innovation in Cox's thought was to relax the narrow conception of material or economic determination falsely attributed to Marx's understanding of capitalism, by introducing ideas and institutions which he suggested should be understood as forms of production themselves. The point of seeing ideas and institutions as features of production is that necessity and struggle over who gets what from production are typical of human history. Cox suggested that whether ideas, institutions, or material capabilities were causal in any concrete historical situation was a matter for empirical research, not prior theoretical assumption.

Not surprisingly, the agenda of a Coxian or Gramscian conception of global governance is a radical or critical one. Marx and his followers were part of a long tradition of critical reflection on industrialism and urbanization. For Marx, these developments in nineteenth-century Europe stemmed from capitalism, which he understood to organize society as feudalism did in the Middle Ages. Marx thought only labour produced value and saw capitalism as a mode of production at the centre of which was the exploitation of labour by

the owners of the means of production. As workers were gathered in factories, they tended to acquire consciousness of their exploitation.

The 'hegemonists,' as I have labelled them, think understanding the substance of global governance requires analysis of capitalism. Even for scholars like Michael Schechter and Craig N. Murphy (2005), who have more policy-focused concerns, and who do see positive possibilities in the reform of the institutional arrangements of global governance, there is a strong desire to transform the objectives served by actually existing global governance into those that would raise populations out of marginalization and exploitation, serving basic human needs.

The Gramscians have focused first and foremost on understanding elite institutions, or what we might call control mechanisms at the commanding heights of society. This institutional approach reflects their inheritance of the concern with forms of state power from earlier Marxist scholarship. More recently, this elite focus has been complemented by research on marginalized peoples and processes in developing countries (Persaud 2001; Murphy 2005). Apart from Cox's early work, and some of the large corpus of more recent work by Murphy, many of the writing by the Gramscians have been concerned with governance within capitalism, rather than more traditional concerns with recognizable intergovernmental organizations.

Social forces, including classes defined by their relation to production, and elites, defined by their leadership role in relation to classes, have been major concerns of most of the Gramscians. Like Marx, Cox and his followers have been very concerned with labour and workers, especially in the research of Harrod (1987), Harrod and O'Brien (2002) and Bieler (2006). Unlike most Marxists, Cox has been happy to combine the study of classes and smaller, narrower elite groups. In particular, Cox's notion of a Transnational Managerial Class (TMC) that combines leading corporate executives, politicians, bureaucrats, and others spanning developed and developing countries, helps to make sense of the development of neo-liberalism in the 1980s. Cox's notion of a leading elite group owes much to the power elite tradition associated with C. Wright Mills and other critical scholars of American politics and society (1956). For many orthodox Marxists, the TMC is not clearly defined in relation to production. For Cox, it is this complexity which gives the concept its relevance.

Because they do not think international cooperation occurs in a vacuum, like others influenced by Marxism, it is fair to say that many of those influenced by the Gramscian tradition look to the subject matter of political economy for the things that matter to them. This means they are interested in major corporations, stock exchanges, the labour process and other features of material

production. These material phenomena are crucial because they create many of the problems international cooperation needs to solve. A classic issue, for example, are standards. Standards govern things like the size of nuts and bolts, drain covers, and electricity voltage.

Because of its origins in Marxism, hegemonism will always be regarded with scepticism by some observers for whom Marxist thinking died with the Soviet Union. These commentators are right to see the death of that sort of rigid and inflexible model of material determination of politics as a good thing. As an approach to thinking about how society works, structural Marxism, which was popular in the West in the 1960s and 1970s, was also hampered by too much emphasis on structure and too little on human agency. This led to a very poor sense of how politics works. What is enormously attractive about the work of hegemonism is a keen sense for the workings of politics.

Conclusions

The rush towards what for many seems a globalized society has raised uncertainties and opportunities for governance (or chaos) which both incorporate and transcend the nation-state that dominated the development of the modern world. States remain central actors in the world of global governance, but their claim to primacy is challenged even in traditional spheres like security. This is an exciting transition, around which a new concept called global governance has started to develop. This seems to be about problems that transcend the narrow limits of national states. However, there is no widely shared understanding of global governance. Different groups have competing ideas with diverging assumptions and implications. The purpose of this chapter has been to identify some of the most interesting schools of global governance thinking. Despite the rise of populism and nationalism, given a shrinking world, global governance thought is likely to be increasingly important to understanding and changing our world in the future.

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6

Regionalism: In Crisis?

Sebastian Krapohl

Since the early 1990s, the globalization of trade and investment flows has been accompanied by reinforced attempts at regional economic governance. Regional organizations have been established or have gained new momentum in almost all world regions (Mansfield and Milner 1999). For example, the European Union (EU) decided in 1991 to establish a monetary union, the Common Market of South America (MERCOSUR) was established in 1991, the Association of Southeast Asian Nations (ASEAN) decided to establish a free trade area in 1992, the Southern African Development Conference (SADC) was re-established in 1992, and the North American Free Trade Agreement (NAFTA) was signed in 1994. By now, almost every country in the world is a member of at least one regional organization with the aim of economic integration.

The regional initiatives of the 1990s have been labelled 'new regionalism' in order to distinguish them from older attempts of regional integration during the 1950s to the 1970s (Breslin et al. 2002). Intensified regional cooperation became possible during the 1990s, because the Cold War no longer structured the international system along its bipolar cleavage. At the same time, regional economic cooperation was seen as a way to deal with the challenges of globalization (Mattli 1999; Schirm 2002). Thus, in contrast to previous attempts of regional integration, the new regionalism does not usually attempt to shield regional economies from global competition but instead increased their competitiveness on the global market. The old paradigms of protectionism

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and import substitution were replaced by the more liberal paradigms of economic openness and export promotion. As a result, it was expected that the new regionalism was more a stepping stone than a stumbling block for global trade liberalization (Baldwin and Seghezza 2010; Dür 2007).

Whereas the 1990s were a 'golden age' for the new regionalism, the landscape has changed since the turn of the millennium. On the one hand, regional economic integration lost much of its dynamic in many world regions. For example, the EU suffers from the Euro crisis and the pending Brexit, MERCOSUR has so far been unable to recover from the Argentinean crisis and Brazil's disreputable behaviour during that crisis (Meissner 2017), SADC could not stick to its ambitious plans of economic integration due to a fragmentation of its external trade regime (Muntschick 2017), and NAFTA is threatened by the protectionist stance of the Trump administration in the USA. On the other hand, ASEAN survived the Asian crisis and became the nucleus of regional cooperation in the whole of East Asia (Krapohl 2015, 2017a), the EU reacted with further integration to the Euro crisis (Niemann and Ioannou 2015; Schimmelfennig 2015), and new regional organizations were founded in Eurasia (the Eurasian Economic Union, EEU) and South America (the Union of South American Nations, UNASUR).

Political science theories still face considerable difficulties in explaining this variance of regional economic integration in different world regions. The academic field is divided between EU studies on the one hand and scholars of comparative regionalism on the other hand (Söderbaum and Sbragia 2011; Warleigh-Lack and Rosamond 2010). As a result, a general theory of regional integration, which could be applied to the Global North and the Global South, does not exist, and the theoretical debate remains very heterogeneous (Söderbaum 2016).

European Integration and the Problem of Generalization

Although the institutional architecture of the EU has heavily influenced the form of other regional organizations around the world, the EU nevertheless represents more of an exception than the rule of regional integration (De Lombaerde et al. 2010). Other world regions always referred to the EU when setting up regional organizations (even if this sometimes led to a deliberate rejection of the EU's supranational features; Jetschke and Murray 2012), and the EU itself actively tried to influence and support regionalism elsewhere

(Lenz 2012). As a result, the new regionalism can also be understood as a diffusion of the European model all around the globe (Jetschke and Lenz 2013; Börzel and Risse 2012). But despite that, European integration remains a unique process, which is unmatched by economic integration in other world regions. Most integration processes outside of Europe remain in the status of free trade areas (e.g. ASEAN and SADC) or customs union (e.g. MERCOSUR), and even if regional institutions formally look like that of the EU (e.g. the Andean Court of Justice), they are de facto not as strong and independent (Alter and Helfer 2010).

The theoretical toolbox of EU studies is well equipped for the analysis of European integration and EU policymaking. Neofunctionalism argues that European integration is pushed forward by several spillover mechanisms (Tranholm-Mikkelsen 1991) and has escaped the full control of the EU member states (Haas 1961). In opposition to that, liberal intergovernmentalism claims that at least the large steps forward in European integration have always been the result of member states' interests and intergovernmental negotiations, whereas supranational institutions are just a means of credible commitment (Moravcsik 1998). In contrast, different institutionalist approaches stress how supranational institutions influence policymaking within the EU (Aspinwall and Schneider 2000; Pollack 1996) and how this leads to a path-dependent development (Pierson 1996).

The famous European example of regional integration has unfolded within a range of benevolent background conditions, which are not reflected within the European integration theories, but which are nevertheless likely to have supported European integration. Realists argue that peaceful European integration was only possible under the nuclear security shield of the USA (Mearsheimer 1990). Constructivists stress the emergence of a security community within Europe, wherein it became inconceivable to solve conflicts by violent means (Adler 1997). From a politico-economic point of view, the most important particularity of the EU is the high level of intraregional economic interdependence, where the member states exchange more than 60% of their international trade on the regional market (Krapohl and Fink 2013). If other world regions do not share these background conditions of regional integration, the European integration theories are ill-suited to analyse the respective regional integration processes. This fact already frustrated the early neofunctionalists, who unsuccessfully tried to apply their theory to Latin America (Haas and Schmitter 1964) but had to dismiss this idea (Haas 1975).

New Regionalism: New Theories

Since the 1990s, scholars of the new regionalism have strongly opposed the 'Eurocentrism' of the classic integration theories and developed new theoretical approaches in order to analyse regionalism in other world regions than Europe (Söderbaum 2013). These new approaches have paid less attention to spillover effects or the influence of supranational institutions. Instead, they focused more on underlying forces like the emergence of regional identities (constructivist approaches; Acharya 2001; Hettne and Söderbaum 2000; Katzenstein 2000) or the economic forces behind regional market integration (politico-economic approaches; Krapohl et al. 2014; Mattli 1999; Schirm 2002).

Two structural factors are often discussed as decisive in the progress or stalemate of regionalism. Firstly, the new regionalism seems to be much more influenced by systemic and extra-regional developments than regional integration in Europe (Mansfield and Reinhardt 2003). The new regionalism has been a reaction to the macro-development of globalization, because it is deemed to increase the competitiveness of the respective regions on the global (extra-regional) market (Schirm 2002). Successful regional integration bears size and stability effects, which make the respective regions more attractive trade partners and addressees of investments (Krapohl 2017a). As a result, successful regional integration in some world regions triggers regional integration in other world regions, which otherwise fear to lose global export and investment shares (Mattli 1999). This extra-regional rationale for regional integration has not been as dominant in Europe, where regional integration allowed the regional economies to profit from comparative cost advantages and economies of scale on a highly interdependent regional market. As a result, systemic and extra-regional factors are barely conceptualized by European integration theories.

Secondly, scholars of the new regionalism widely agree that the new regional organizations are strongly influenced by the existence of dominant regional powers, but the consequences of this influence are disputed. On the one hand, there is the expectation that the existence of regional powers contributes positively to regional integration (Pedersen 2002). Accordingly, a benevolent regional hegemon transforms a regional group of states to a privileged group and solves the commitment and distributional problems of regional cooperation. Mattli (1999) even argues that the existence of a regional hegemon is a necessary condition for successful regional integration. On the other hand, regional powers may not always be benevolent for regional integration, if they

have different interests than their smaller regional neighbours. If regional powers are not economically embedded within their region (Krapohl 2015), but are more dependent on extra-regional trade and investment flows, their interests may turn against regional integration (Krapohl 2017b; Krapohl et al. 2014). Because they already possess the biggest and most attractive regional economies, regional powers do not profit as much from regional integration, and they are more likely to enjoy privileged economic relations with other world regions. As a result, they may not provide the desired regional leadership and instead may protect their own privileges at the cost of regional integration.

Early Successes and Crises During the 1990s

The new regional initiatives, which emerged during the 1990s in Africa, America, and Asia mostly addressed the global rather than the regional markets. Intraregional trade in ASEAN, MERCOSUR or SADC was comparatively low—nowhere exceeding 20%—and therefore the intraregional gains of market integration were relatively low as well (Fink and Rempe 2017; NAFTA was a notable exception with intraregional trade of about 50%). However, the member states of these regional organizations started to open up their economies, and regional integration was a means to commit themselves to liberal economic policies and to signal that to international investors (Schirm 2002). Thus, ASEAN established a free trade area during the 1990s (Bowles 1997), MERCOSUR even formed a customs union in 1994 (Malamud 2015), and only SADC was a latecomer by setting up a free trade area in 2008 (Muntschick 2013).

The new regionalism was initially rewarded by international investors and extra-regional trade partners, but also by increasing intraregional trade. This becomes most visible in the examples of ASEAN and MERCOSUR during the 1990s. Both regions were enjoying a boom of extra-regional investment inflows as a result of regional integration, as well as liberal economic and privatization policies (Bowles 1997; Eden 2007). The regional economies prospered, and intraregional trade rose from 17% to 21% in ASEAN and from 13% to 23% in MERCOSUR (Krapohl 2017a; Meissner 2017). Besides, MERCOSUR started to negotiate an interregional trade agreement with the EU, which would have granted the MERCOSUR member states privileged access to their most important export market (Calfat and Flores 2006). At the time, ASEAN and MERCOSUR were the most successful regional organizations in the Global South.

Despite the early successes of regionalism in ASEAN and MERCOSUR, both regions entered deep troubles at the end of the 1990s. Firstly, ASEAN was hit by the Asian crisis, which started in 1997 in Thailand and spilled over to Indonesia, Malaysia, the Philippines, and South Korea (MacIntyre 2001). International investors withdrew capital from Southeast Asia, the regional currencies devaluated against the US dollar, and debt levels increased sharply. ASEAN itself proved unable to support its member states (Krapohl 2017a), which finally had to turn to the International Monetary Fund (IMF) for a bailout. Consequently, confidence in the regional organization eroded.

Secondly, the loss of investors' confidence swept over to South America, where the MERCOSUR member states were suffering from a similar capital flight and the regional currencies also came under pressure to devaluate (Saxton 2003). Here, Brazil floated its currency unilaterally, and the Real lost more than 30% of its value within days. Consequently, Brazilian exports became privileged in comparison to the exports of other MERCOSUR member states. This 'beggar-thy-neighbour' strategy marked the starting point of Brazil's export boom of the 2000s, but it became the deathblow for the Argentine economy, which consequently entered the Argentine crisis (Krapohl 2015). The relations between Argentina and Brazil deteriorated, and regional integration in MERCOSUR stalled (Meissner 2017).

The Rise of Regional Powers During the 2000s

In the decade after the turn of the millennium, the global economy witnessed the rise of emerging markets. The BRICS countries—Brazil, Russia, India, China, and South Africa—are the most powerful of these emerging markets with huge populations and relatively high rates of economic growth. The growth of these economies during the 2000s has challenged the global economic order, which is still very much dominated by Europe and North America (Mahrenbach 2016; also, Mahrenbach (Chap. 14) and Nederveen Pieterse (Chap. 15), both this volume). At the same time, all BRICS countries are also involved in regional organizations: Brazil is the dominant member state of MERCOSUR, Russia dominates the EEU, India is a member of the South Asian Association for Regional Cooperation (SAARC), China participates in the so-called ASEAN+3 (ASEAN plus China, Japan and South Korea), and South Africa is the regional power of SADC. From a realist perspective (Mattli 1999; Pedersen 2002), one could have expected that the rise of these regional powers improved their capacities to provide leadership in their respective regional organizations.

However, the examples of Brazil in MERCOSUR and South Africa in SADC demonstrate that regional powers do not necessarily use their power to the advantage of regional integration (Krapohl et al. 2014). As already discussed, after Brazil's 'beggar-thy-neighbour' strategy significantly contributed to the Argentine crisis, MERCOSUR never regained the dynamic of the 1990s (Malamud 2015). As a result, Brazil started to pursue its interests more and more outside of MERCOSUR (Meissner 2017). Brazil was the leading power behind the establishment of UNASUR, which at least partly competes with MERCOSUR. Even more striking, Brazil negotiated a bilateral strategic partnership agreement with the EU. Although this partnership omits trade issues in order not to be in conflict with MERCOSUR's customs union, it nevertheless indicates Brazil's renunciation of the interregional EU-MERCOSUR negotiations.

Although South Africa pushed the setup of the SADC free trade area in 2008, its bilateral Trade, Development and Cooperation Agreement (TDCA) with the EU proved to be a major obstacle for the establishment of a customs union (Muntschick 2013). During the 2000s, the EU aimed to renegotiate its trade relations with the Africa, Caribbean and Pacific (ACP) countries, because its previous regime of non-reciprocal trade privileges was in conflict with rules of the World Trade Organization (WTO) (Foorwood 2001). However, instead of organizing an SADC negotiation group for an Economic Partnership Agreement (EPA), South Africa preferred to stick to its privileges under the TDCA. As a result, SADC member states joined different EPA groups, the region's external trade regime fragmented, and the envisaged customs union could not be established. Although South Africa later joined the SADC-EPA, this consisted only of a small part of SADC, and it basically took over the rules of the former TDCA (Muntschick 2017).

The example of the Euro crisis demonstrates that the interests of regional powers in well-developed regions of the Global North are more in line with the interests of smaller regional neighbours. Although the EU's largest economies France and Germany were not affected by the Euro crisis itself, the two regional powers nevertheless suffered from the negative externalities of the crisis. France and Germany are deeply embedded within the regional economies of the Eurozone (Krapohl 2015), and the Euro crisis put important trade flows, foreign investments, bank loans, and the common currencies at risk. As a result, France and Germany carried a huge part of the financial burden to bailout the crisis-suffering countries of the Eurozone's periphery. Although the conditions of the bailout packages were highly disputed between creditors and debtors, they nevertheless proved sufficient to stabilize the common currency.

Despite the Asian crisis, ASEAN was the only regional organization in the Global South which kept the momentum of the 1990s throughout the 2000s. This is due to the fact that ASEAN is not dominated by a single regional power (Fink and Rempe 2017), which could have hampered regional integration by putting its own extra-regional interests first. Besides, ASEAN was supported from the outside by China, Japan, and Korea within the ASEAN+3 process. After the Asian crisis, Japan initiated the Chiang Mai Initiative, because it had an interest in stabilizing the wider neighbourhood (Krapohl 2015). The Chiang Mai Initiative established a regional liquidity fund wherein China and Japan provide the necessary resources to stabilize their smaller neighbours (Grimes 2015). Besides, ASEAN negotiated bilateral ASEAN+1 trade agreements with China, Japan, and Korea. The ASEAN member states managed to speak with one voice within the ASEAN+3 process, and ASEAN became the nucleus of East Asian regionalism (Stubbs 2014). In order to strengthen their position in extra-regional negotiations, the ASEAN member states proceeded with regional integration, adopted the ASEAN charter, and established the ASEAN Community in 2007 (Krapohl 2017a).

New Challenges Ahead

During the 2010s, new challenges emerged for regionalism in and beyond Europe. These developments have not yet been fully reflected in the academic literature, and their impact on regional integration in different world regions is still uncertain. Firstly, the most prominent example of regionalism—namely the EU—faces the biggest crisis of its history. Although the common currency was stabilized after the Euro crisis, the austerity measures of the bailout packages put high burdens on the crisis-suffering countries and were interpreted as a lack of solidarity. This was most of all a problem for Greece, which has not yet recovered from the crisis in full. The EU also showed a limited capacity to act in the refugee crisis of 2015. Here, the member states could not agree on a redistribution of refugees, and several member states tried to handle the refugee masses by directing them to neighbouring countries (Trauner 2016). In 2016, the citizens of the UK—the EU's third largest member state—showed their dissatisfaction with the EU and decided in a referendum to leave the regional organization (Owen and Walter 2017; see Vickers (Chap. 18), this volume). This sequence of crises is highly likely to reduce the appeal of regionalism in other world regions, which carefully observe the developments in the world's role model of regional integration.

Secondly, also in 2016, the American people voted for Donald Trump as US president after he campaigned with very protectionist statements (Irwin 2017). Directly after taking office, the Trump administration left the Transpacific Partnership (TPP), which was negotiated by the previous US administration. The Transatlantic Trade and Investment Partnership (TTIP) has been put on ice. Although Donald Trump has not directly revoked NAFTA, the agreement between Canada, Mexico, and the USA is being renegotiated. Instead of multilateral trade agreements, the Trump administration clearly favours bilateral agreements with important trade partners. This is not only bad news for regionalism in North America but also for regionalism in other world regions. Bilateral trade agreements with the USA constitute important extra-regional economic privileges for the trade partners. If these privileges are at odds with regional integration, the respective partners need to weigh their regional interests against privileged access to the huge US market. In this way, American trade policies may also become an obstacle for regional integration elsewhere.

Conclusion

It is highly unlikely that we will witness the emergence of a new regional world order (Gamble and Payne 1996) in the near future—although regional organizations will surely remain as an important part of international politics. After the end of the cold war, the 1990s were distinguished by general optimism and economic liberalism. The new regionalism flourished under these circumstances, and regional organizations were established or re-established in almost all world regions. However, after the turn of the millennium, it became increasingly unlikely that any of the new regional organizations take the same path towards ever more economic integration as the EU. MERCOSUR and SADC suffered from stagnation, because their respective regional powers put their extra-regional interests first and damaged the regional integration project. Even ASEAN—notably the most successful regional organization in the Global South—has so far not come close to the integration levels prevailing in Europe. Today, even regional organizations of the Global North are under threat. NAFTA is currently being renegotiated and the results are not yet foreseeable. At the same time, the EU is stumbling from one crisis to the next. This does not imply that regional organizations will disappear, but it implies that processes of regional integration are not inevitable and not irreversible. Regional organizations will not replace the nation states as the most important actors in global politics, but they will remain international

organizations whose strength and influence will vary between different policy areas and different world regions.

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7

Domestic Politics and the Societal Approach

Stefan A. Schirm

The Puzzle

Explaining international political economy (IPE) requires not only the consideration of the international distribution of power, of transnationalisation, and of the role of international institutions but first and foremost the analysis of the domestic societal foundations of governmental preference formation. Governing politicians and parties in developed as well as emerging and developing countries may react to international circumstances but come into office with previously shaped preferences whose characteristics primarily originate from the societies which (re-)elect and legitimise governments in democratic political systems (to a much lesser extent in authoritarian systems). Thus, the link between societies and governments is primarily due to the governments' wish to remain in office. Due to the latter, governments tend to be responsive to societal demands also during their tenure.

Domestic politics theories, however, not only constitute a logically compelling part of IPE (and International Relations—IR) theory but also seem empirically necessary. Examples abound for the explanatory shortcomings of traditional theories and for the need to employ domestic politics approaches. Regarding global economic governance, for instance, why didn't emerging powers align with each other against established powers in the new central body for the coordination of the world economy, the Group of 20 (G20)? Neorealism's balance-of-power logic predicts that the established powers

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would defend their place in the international hierarchy by aligning against the equally aligned emerging powers. Institutionalism predicts that the common understandings (rules) reached in the previously established institutions of the (developed) Group of Seven (G7) and (emerging) Brazil, Russia, India, China, and South Africa (BRICS) would shape the respective governments' preferences. Instead, however, emerging countries often aligned with developed countries on an issue-dependent mode. For example, Brazil, together with Germany, demanded deficit spending to be ended in other countries in order to prevent global inflationary pressures, while the US strongly asked for a continuation of public debt-driven spending to fight the economic downturn after the financial crisis in 2009. In another instance, Brazil and Germany joined in criticising the US and China for manipulating their currencies. While neorealism and institutionalism show explanatory weaknesses, domestic politics theories offer an explanation for these ad hoc groupings of emerging and developed countries by examining the role of societal ideas as voters' expectations and of material interests in the form of lobby groups in shaping governmental positions in the G20 (see case study later).

Another example for the shortcomings of traditional theories is the issue of leadership in IR: why do emerging and established powers succeed in exerting leadership in some instances while failing in others? If this variation occurs in the same time period, power constellation and institutional setting, neorealism and institutionalism have difficulties in explaining the puzzle, since the international distribution of power and institutions are constant while policy outcomes vary. For instance, within a constant power constellation and institutional setting (and short period of time), Brazil both failed and succeeded in gathering other countries' support for its candidate for the position of the director general of the World Trade Organization (WTO). Likewise, Germany first failed and then succeeded in attaining enough other member countries' followership to occupy the directorship of the International Monetary Fund (IMF). Since followership is a prerequisite for leadership, and followership was missing in the cases of failure, while it was available in the cases of success, the question arises on why followership varies when power and institutions show continuity. Again, domestic politics approaches offer an explanation by shedding light on the societal ideas and interests which shape governmental preferences *in potential follower countries* regarding the option of following a potential leader. Research on emerging powers in global governance confirms that 'inclusive leadership' is successful precisely because of the leader's incorporation of the domestic ideas and interest of potential followers in its leadership project (see Schirm 2010 for the case study analysis on leadership).

This chapter proceeds as follows. First, core variants of domestic politics theories are presented. Second, their further development through the societal

approach to IPE is discussed regarding its hypotheses and its innovative elements. Third, a case study is provided to show how the societal approach contributes to explaining governmental preferences towards two issues debated in the G20.

Domestic Politics Theories

Theories of domestic politics such as IR liberalism, two-level approaches, the varieties of capitalism theory, and the societal approach focus on domestic actors and structures such as lobby groups, voters' expectations, and domestic institutions in order to explain governmental preference formation. With their focus on domestic factors as independent variables to explain governmental preferences as dependent variable, domestic politics theories belong to the analytical theories of political science. In addition, with their focus on endogenous, societal variables in explaining governmental preference formation, domestic politics theories differ from theories focussing on features of the international system such as international institutions, regimes, and power hierarchies. The common ground of domestic politics theories is the argument, that governments' preferences are shaped by domestic influences prior to the characteristics of the international system, because governments wish to remain in power and therefore react responsively to endogenous demands. International power and institutions are not seen as irrelevant, but as analytically secondary to domestic variables.

The conceptualisation of contemporary domestic politics theories reaches back to the 1960s (Rosenau 1967) and was shaped in the 1970s by seminal works such as Peter Katzenstein's 'Domestic and International Forces and Strategies of Foreign Economic Policy' (Katzenstein 1978). The 1990s witnessed important publications which further differentiated domestic variables, for instance, Judith Goldstein and Robert Keohane's (1993) volume on the role of ideas and beliefs in foreign policymaking and their inter-relationship with interests and institutions. While Goldstein and Keohane conceptualised ideas as explanatory variable, Ronald Rogowksi and Jeffry Frieden focussed on the cost-benefit calculations of domestic interest groups and their demands towards governments in a volume edited by Helen Milner and Robert Keohane on 'Internationalization and Domestic Politics' (1996).

Helen Milner developed a 'Theory of domestic politics' (1997), arguing that 'cooperation among nations is affected less by fears of other countries' relative gains or cheating than it is by the domestic distributional consequences of cooperative endeavours. Cooperative agreements create winners

and losers domestically; therefore, they generate supporters and opponents' (Milner 1997, 9). Thus, following Milner, the international distribution of power and wealth is secondary to the domestic gains and losses in influencing societal support or opposition to the government's foreign economic policies.

Domestic politics theories were further developed by Andrew Moravcsik in his seminal article (1997) proposing three variants of IR liberalism: commercial liberalism focusses on material interests affected by international trade as influential elements for governmental preference formation, ideational liberalism is constituted by a society's identity which shapes preferences, and republican liberalism sheds light on the different sectors' representation in the political system. Moravcsik argues that: '(…) states do not automatically maximise fixed, homogeneous conceptions of security, sovereignty, or wealth per se, as realists and institutionalists tend to assume. Instead (…) they pursue particular interpretations and combinations of security, welfare, and sovereignty preferred by powerful domestic groups' (Moravcsik 1997, 519).

While the approaches mentioned focus on material economic interests and ideational features as independent variables, the 'varieties of capitalism' theory and the related historical institutionalism consider domestic institutions as crucial factors for private and governmental preference formation. Institutional complementarities would shape comparative economic advantages of coordinated market economies (CMEs, such as Germany) and liberal market economies (LMEs, such as the US) in cross-country comparison and trigger path-dependent preferences and behaviour by firms and governments (Hall and Soskice 2001). This approach was extended to emerging markets as state-permeated market economies (Nölke et al. 2015; also Nölke (Chap. 9), this volume). As Fioretos (2001) has shown, domestic institutional complementarities shape multilateral preferences of governments. Thus, current institutions, which represent the codification of previously existing interests and/or ideas, shape present interests and ideas as well as governmental preferences which aim at protecting domestic regulatory settings. With these features, historical institutionalism is compatible with the domestic politics theories focussing on interests and ideas: 'An institutional theory of state preferences suggests that governments' positions (…) are informed by their calculations of how international rules will affect their ability to sustain designs that are the foundations of economic groups' competitive advantages' (Fioretos 2010, 701).

This short discussion of ideational, material, and institutional dimensions of domestic politics theories can only serve as exemplary overview of the most important perspectives without attempting at completeness. Other authors

and arguments (such as Putnam's two-level game, 1988) also merit attention but cannot be considered, given the space constraints of this chapter.

The Societal Approach to International Political Economy

The societal approach (Schirm 2002, 2009, 2013, 2016) builds upon and complements the above-presented domestic politics theories and develops them further. It is innovative in addressing the question on why societal ideas predominantly shape governmental preferences in some instances, while material interests inform preferences in other instances (see also Eckhardt and Lee (Chap. 41), this volume). Previous theories of domestic politics have employed the variables of interests, ideas, and institutions but did not ask for the reasons for their relative prevalence vis-à-vis each other. Thus, the core innovation of the societal approach is the conceptualisation of hypotheses on the conditions under which either material interests or ideas or institutions matter. In addition, the societal approach reaches beyond previous definitions of ideas and interests in order to bridge conceptual gaps such as the material versus ideational divide. Furthermore, it encompasses all three domestic variables, while other theories focus only on one (institutionalism) or two variables (interests and institutions).

The societal approach defines *ideas* as value-based and path-dependent collective expectations of voters about appropriate positions of the government. With this definition, it draws upon Goldstein and Keohane (1993), Moravcsik (1997), and Hall (1997, 184). It develops some of these concepts further by including long-term considerations of appropriateness. Methodologically, ideas are measured in an aggregated form by public opinion polls as well as behavioural patterns, for instance, of savers and environmentalists. Public opinion polls are not used to evidence daily attitudes, but rather to show fundamental expectations, for example, on the role of the government in steering the economy, on the appropriateness of private competition versus public regulation. Fundamental attitudes do not encompass, for example, whether voters support a specific trade agreement, but instead whether voters see competition as a force for good or rather as a threat and whether governmental regulation is seen more positively than the workings of free markets.

The societal approach defines material *interests* as cost-benefit calculations of economic sectors (such as banking, export, and agriculture) which can change rapidly according to changes in the international economy and to new

regulations which alter the competitive situation of companies. This definition builds upon Frieden and Rogowski (1996, 35), Moravcsik (1997, 528) and Milner (1997, 9). Sectoral interests can diverge, for example, regarding the desire for protection from external competition versus the demand for international economic liberalisation (e.g., see Black and Hibbeln (Chap. 40), this volume). Material interests can be evidenced by structurally assessing an economic sectors' competitive position. More important for the societal approach's intent to bridge conceptual divides is the assessment of (aggregated) interests through statements by sectoral business associations. Evidencing interests through statements allows to include the interpretation of circumstances in order to assess the motivation for sectoral lobbying vis-à-vis the government.

Institutions are defined in the societal approach as formal regulations of socio-economic coordination. This definition builds upon the varieties of capitalism and historical institutionalism theories (Hall and Soskice 2001; Fioretos 2001, 2010, 701) but focusses only on formal regulations such as laws and organisational patterns. Informal behavioural patterns are considered expressions of path-dependent ideational predispositions. In order to empirically assess institutions, formal regulations will be scrutinised. While ideas and interests are held by specific actors which inform governmental preferences, institutions are considered as structures which shape ideas and interests and can, in addition, influence governmental preferences directly by structuring visible economic complementarities and advantages.

Ideas, interests, and institutions may constitute, reinforce, or contradict each other. Their inter-relationships are conceptualised in the complete version of the societal approach. The distinctive definition of each of the variables serves the purpose to formulate hypotheses on the conditions for their individual bearing on governmental preferences:

- H1 argues that when specific economic sectors are affected directly by governance initiatives or circumstances in the form of high (potential) costs or benefits, material interests will be most influential in shaping governmental preferences because lobbying will be strong.
- H2 argues that when fundamental, long-term questions about the role of the government in steering the political economy are raised by a governance initiative and sectoral interests are only affected in a diffuse way, ideational societal expectations will prevail in shaping governmental positions, while economic sectors lack motivation for lobbying.
- H3 argues that when the IPE governance issue concerned refers to questions related to domestic patterns of socio-economic regulation,

governmental positions will be consistent with national institutions. In other words, governments will resist international initiatives that conflict with domestic institutions and try to make international rules consistent with domestic institutions. Consistency means that positions are either informed by institutions or not opposed to them. Domestic institutions are expected to weaken the impact of ideas and interests that oppose institutional settings and strengthen the impact of ideas and interests that correspond to institutions.

– H4 argues that the government's ability to compromise in international, intergovernmental negotiations tends to be higher when divergences are material in nature (interest-driven) than when they are shaped by contrasting value-based expectations (idea-driven). This is because a divergence in material interests is accessible to compromise via a partition of costs and benefits among relevant actors, while overcoming ideational differences requires a shift in path-dependent societal expectations (see Schirm 2009, 2013 for an application of H4).

The conditions for the bearing of the variables formulated in H1, H2, and H3 have two implications. First, depending on the international politics issue at stake, one, two, or all three factors will influence governmental positions. Second, while interests and ideas can compete for influence or reinforce each other, institutions are expected to influence positions in all cases when the IPE issue mirrors national regulations. Institutions influence current societal ideas and interests according to historical institutionalism but may also encounter opposing ideas and/or interests. The latter occurs when current expectations on appropriate policies and/or material interests do not conform to established regulations as a result of ideational change or changes in the material conditions faced by interest groups (such as international trade competition). Since the variables may appear individually (supporting or opposing each other) or interdependently (together), they may shape governmental preferences alone or in conjunction.

Regarding the dependent variable, *governmental positions*, the societal approach aims at evidencing correlation of governing politicians' statements with the independent variables. This is the segment of the policymaking process the societal approach focusses on. Expert bureaucrats are not considered since they do not ultimately decide on governmental positions and because they are not expected to be as responsive to societal influences as politicians because they are not accountable to voters in elections. Testing hypotheses with public statements by politicians, however, can provide only plausibility, not proof. When governments underline their positions with ideas, they can,

for example, also draw a rhetorical picture to promote hidden material agendas, such as protectionism or liberalisation. However, based on the standard assumption of self-interest to remain in office, public statements by politicians accountable to the populace give evidence for what they consider acceptable to crucial societal forces and therefore legitimate.

Case Study: Convergence and Divergence in the Group of Twenty

The following short case study on the G20 will exemplify the relevance of domestic politics and the societal approach in explaining governmental positions towards global economic governance. The case summarises the findings of a project which examined governmental preference formation towards two issues debated in the G20: public debt and currency manipulation (for the complete case study and references, see Schirm 2013). As mentioned in the introduction, the controversies in the G20 often did not occur between emerging countries on the one hand and developed countries on the other as neorealism and institutionalism would predict. Instead, some developed countries aligned with some emerging powers against other developed and emerging countries. Did G20 divergences reflect differences in domestic ideas and interests between the G20 members? Why did ideas and institutions apparently shape positions on public debt, while material interests prevailed in determining preferences regarding currency devaluations? Country cases are Brazil, Germany, and the US.

1. The controversies on *public debt* found the US demanding further expansion of deficit spending and Brazil and Germany asking for its reduction. While the US government argued that the economic downturn after the eruption of the financial crisis in 2008 needed lasting stimulus programmes financed by public debt, Brazil and Germany opposed excessive public debt levels arguing that they would distort market forces and trigger inflationary pressures.

The US position corresponded to long-term ideational expectations and to the institutional foundations of the US's LME. First, the readiness to embrace deficit spending and the relative low fear of inflation can be seen as reflecting a high acceptance of debt-fuelled spending demonstrated in societal attitudes in the US, where debt-driven consumption is widely supported by the public (Cynamon and Fazzari 2010; Rajan 2010). Second, the form of the US stimulus, that is, increasing general spending and a loose monetary policy with

mainly market-driven distributional effects, corresponds to the respective ideational attitudes in the US, namely, more trust in the market in distributing resources than in the government in doing so. Figures from the World Value Survey (WVS) confirm these attitudes (see later). Finally, mirroring the behavioural pattern of debt-fuelled consumption, the US private savings rate as a behavioural practice is traditionally much lower than in Germany, plausibly leading to a higher ideational acceptance of public deficit spending in the US than in Germany (OECD 2010).

As a CME, Germany mainly boosted demand via automatic stabilisers in its welfare and tax systems and via schemes which avoided layoffs by subsidising wages. Because automatic stabilisers and other social security transfers are much higher in Germany than in the US, public expenditure and demand stimulus automatically increase during an economic downturn. Public opinion polls show domestic support for the fundamental ideas (about the basic tasks of the government) which underlie these differences. For example, as indicated in WVS data (2006a, V152, relevant for post-2008 preferences in the G20), 27.7 per cent of Germans believe that it is an 'essential characteristic of democracy' that 'governments tax the rich and subsidise the poor', while only 6.6 per cent of Americans agree with that statement. Besides these institutional and ideational features, the fear of triggering inflationary pressures through deficit spending has played an important role. The broadly shared ideational consensus on anti-inflationary fiscal prudence in Germany, the 'Inflationstrauma', has dominated German economic policy since the hyperinflation of the Weimar Republic (Hartwich 1998). It was enshrined in the 'Soziale Marktwirtschaft' as well as in the statutes of the Bundesbank. Thus, anti-inflationary attitudes in Germany can be seen as an ideational feature based on previous material experience, which leads to a general societal interest in economic stability reflected in high savings rates.

Brazil as a state-permeated market economy focussed its stimulus on infrastructure, tax cuts, and additional low-interest-rate credit lines of its development banks (ILO 2010). Societal ideas as fundamental expectations about the appropriate role of the government in steering the economy support the strong influence of the Brazilian government on the distribution of the stimulus, which contrasts with the market mechanisms which were dominant in the US deficit spending. According to WVS figures (2006b, V118), 27 per cent of Brazilians agree with the statement that 'the government should take more responsibility', compared to only 8.8 per cent of Americans and 14.8 per cent of Germans. These figures support the interpretation that ideas are reflected in the institutionalisation of the respective economic models as liberal (US),

coordinated (Germany), and state-permeated (Brazil), which plausibly reinforces the underlying ideational settings.

Besides these differences concerning the role of the government versus the market in allocating the stimulus effects, societal ideas in Brazil were also closer to Germany than to the US regarding anti-inflationary policies. After a period of hyperinflation in the 1980s, Brazil mastered inflation in the mid-1990s under the government of President Cardoso. Cardoso's successor, Lula da Silva, maintained the anti-inflationary course. Evidence supports the interpretation that the collective material interest in price-stability has subsequently developed into a fundamental collective expectation in Brazil, ranking third after unemployment and interest rates in terms of societal expectations about governmental priorities in combating the crisis (Lavareda 2009). Thus, the Brazilian inflationary trauma was more recent than the German but also strongly shaped domestic politics as an (interest-based) ideational expectation by voters about appropriate policies. Regarding the savings rate as a behavioural practice which indicates ideational expectations about public debt, the Brazilian savings rate falls between the US rate and the German rate (detailed references in Schirm 2013). These savings rates point to a higher ideational support for fiscal prudence (low public debt) in Germany than in the US, with Brazil in the middle.

In the context of the G20, the three countries played antagonistic roles. The US urged Germany (and others) to increase its general deficit spending (Geithner 2009). On the other hand, Germany and Brazil opposed the US's loose fiscal and monetary policy as well as US demands for increased deficit spending and quantitative easing (QE) in disputing the sustainability of economic stimulation via deficit spending and printing money. In addition, they emphasised the danger of global inflationary pressures on prices. Already at the G20 finance ministers' meeting in summer 2009, German Finance Minister Steinbrück (2009) urged the US to pursue an 'exit strategy' with regard to loose monetary and fiscal policy—a proposal strongly rejected by the US, whose Treasury Secretary emphasised the necessity (especially for trade surplus countries) of keeping global economic stimulus in place until recovery is assured (Geithner 2010a). Brazil equally criticised the US deficit spending and QE, Brazilian President Rousseff (2011) underlining the need to 'address sovereign debt and fiscal imbalances in some countries' and declared that 'we will not succumb to inflationary pressures coming from outside'.

These differences corresponded to diverging societal ideas as attitudes and practices as well as to domestic institutions. Focussing on societal ideas and institutions as the explanatory variable in this case does not mean that material

interests in the form of interest group activities did not influence governmental positions. Lobby groups such as national industrial associations did voice their demands for governmental support. However, these demands did not differ considerably between the three countries since they all aimed to enhance governmental support for economic growth. Therefore, they cannot explain the differences in governmental positions on debt and stimulus between the countries.

2. Controversies over *exchange rates* became focal in the G20 in 2010. The Obama administration blamed China's undervaluation of its currency for decisively contributing to the large trade deficit the US had with China and demanded an appreciation of the renminbi (Geithner 2010b). Since direct pressure on China did not lead to the desired result, the US integrated the currency issue into the G20 debates. However, with the issuance of huge amounts of dollars through QE (QE2+QE3 amounted to US$ 1000 billion), the US also began to devalue its currency. This devaluation of the dollar and the undervaluation of the renminbi led other G20 countries to worry about their exports suffering as a result of competitive devaluations between the US and China. The Brazilian Finance Minister Guido Mantega warned that a 'currency war' was taking place which would impose costs on third countries by reducing their competitiveness while simultaneously destabilising the world economy. This opinion was seconded by President Rousseff (2011) affirming that 'it is urgent to combat protectionism and all forms of currency manipulation, which give spurious competitiveness at the expense of trading partners. The G20 can offer a coordinated response'. Brazil was joined in its criticism by the German Finance Minister Schäuble (2010): 'It's inconsistent for Americans to accuse the Chinese of manipulating exchange rates and then to artificially depress the dollar exchange rate by printing money'.

Domestic interests played a crucial role in defining these positions. The US argued that the exchange rate policy and QE were aimed at securing domestic jobs, thus pleasing sectors threatened by imports and the export lobby (Geithner 2010b). US positions followed intense lobbying by major domestic business associations, for instance, by the US Chamber of Commerce (2011). On the other hand, the warnings of the successful exporters Brazil and Germany were based on fears that undervalued Chinese and US currencies would harm the competitiveness of their products on the world market and lead to inflationary pressure. The position of the German government corresponded to the fear of a negative impact on exports from a 'currency war', as stated by business associations and by the president of the German Chamber of Industry and Commerce (DIHK 2010). The position of the Brazilian government in the G20 also corresponded to statements made by affected

domestic interest groups, for example, by FIESP (2011), the Federation of Industry of the State of Sao Paulo. In addition, on behalf of the country's export sector, the Brazilian Confederation of Industry strongly lobbied the government to adopt measures containing the strong appreciation of the real vis-à-vis the US dollar (quotes and full references in Schirm 2013).

In sum, the positions of the two trade surplus countries, Brazil and Germany, corresponded to the domestic interests of the export sectors, while the position of the US government corresponded to the weak competitiveness of large parts of US industry. While Brazil and Germany criticised the US for its exchange rate policy, all three criticised China's undervaluation of the renminbi. Thus, the case supports the societal approach's hypothesis arguing that interests prevail in shaping governmental preferences when the governance issue at stake directly affects the cost-benefit calculations of major economic sectors.

Conclusion

Domestic politics theories of IPE can contribute substantially to the analysis and to the understanding of governmental preference formation on global economic governance. By conceptualising the role of material interests, of value-based ideas and domestic institutions in shaping governmental positions, domestic politics theories can explain why governments pursue certain goals prior to considering the international distribution of power and international rules. In addition, domestic politics theories can explain the variation of governmental positions in cross-country comparison. The societal approach further develops domestic politics theories. It offers a conceptualisation of the conditions under which either societal ideas or material interests prevail in shaping governmental preferences and under which domestic institutions inform governments. Furthermore, the societal approach contributes to partially bridging the material versus ideational divide by defining the variables in an encompassing way which includes cost-benefit calculations, their interpretation, as well as expectations about the appropriateness of governmental positions. In addition, the societal approach encompasses all three domestic variables, that is, ideas, institutions, and interests, which are mostly employed individually in the literature.

The explanatory power of the societal approach was exemplified in a short case study on the G20 which rests on previously conducted research projects. The controversies between Brazil, Germany, and the US were analysed to explain why Brazil and Germany joined against the US on the issues of public

debt and currency manipulation. In addition, the question was examined on why societal ideas dominated preferences on public debt, while material interests dominated the currency issue. The exemplary findings in the public debt case show that the Brazilian and German government positions mirrored similar domestic institutional and ideational settings which differed from the societal ideas and institutions in the US which, in turn, had informed US government positions. The prevalence of ideas in informing the positions on public debt supported the societal approach's hypothesis arguing that ideas prevail over interests in shaping governmental preferences, when fundamental questions on the appropriate role of politics in steering the economy are at stake, and that preferences tend to mirror domestic institutional settings. Conversely, the prevalence of material interests in the currency manipulation case supported H1 arguing that material interests dominate governmental preferences when specific sectors' cost-benefit calculations are directly affected by the governance issue because lobbying will be strong.

While the societal approach focusses on the impact of domestic ideas, institutions or interests on governmental preferences, other theoretical approaches highlight the role of political parties in aggregating societal demands and of the nature of political systems in determining the form of political participation. Further research might investigate the inter-relationship of these approaches and contribute additional perspectives.

In sum, domestic politics theories and the societal approach offer a distinct perspective and a crucial analytical tool to examine, explain, and understand under which conditions societal actors, domestic politics, as well as institutions matter for governmental preferences. In developed, emerging, and developing countries alike, governments' positions are informed by lobby groups, voters' expectations and socio-economic regulations. Therefore, explaining IPE requires the analysis of the influence of societal ideas, domestic institutions, and material interests on governmental preference formation.

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8

Neoliberalism

Matthew Eagleton-Pierce

Introduction

Neoliberalism has become a common, if still contested, conceptual frame of reference for International Political Economy (IPE) scholars to better understand the governance of the global economy. With its theoretical roots in the 1930s, the term has been called upon to represent, clarify, or, through normative arguments, denounce a wide variety of things. If there is a connecting theme which unites users of the term, it concerns how to think about the patterns of capitalism since the 1980s, with particular reference to commodification tendencies, the special role of finance, and wider socio-economic inequalities. This chapter offers an overview of the theoretical debates in IPE and allied disciplines on the subject of neoliberalism. It situates the meanings and disputes of scholars in relation to how the empirical environment of the world economy has changed over the past four decades. In examining this complex terrain, the argument begins by offering four prominent starting points for the analysis of neoliberalism: (1) as a history of intellectual ideas; (2) as a system of enhanced capitalist power in which marketisation is stressed; (3) as a cultural examination of everyday conduct; and (4) as a more generic post-Marxist expression to denote the current zeitgeist. With this foundation in mind, the discussion proceeds to map neoliberalism through three major 'acts': (1) from the late 1970s to the early 1990s; (2) from the mid-1990s to the mid-2000s; and (3) from the late 2000s to the present. While noting the

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difficulty of chiselling history into such temporal forms, it, nonetheless, remains helpful for better grasping of some of the major trends and preoccupations that have come under the heading of neoliberalism.

Four Starting Points on Neoliberalism

Since the 1980s, use of the concept of neoliberalism has taken off in academic dialogues; in addition, within many countries, the term is found as a framing device to mobilise actors on the political left. Similar to other applications in the social sciences, such as in heterodox economics, geography, sociology, and anthropology, 'neoliberalism' in the field of IPE has been adopted as a kind of catch-all for the current capitalist age or even modernity itself. As the meaning of the expression has been stretched across different spaces, institutions, and domains, the notion has unsurprisingly become a rather 'unstable signifier' which, over time, appears to be 'becoming even-more plastic, porous, and promiscuous' (Peck 2010: 31). It is still possible, nonetheless, to point towards four starting points on how to theorise neoliberalism which can guide us through understanding political economy.

The first—and arguably most coherent meaning—is to understand neoliberalism as a movement of intellectual ideas. In this context, from the 1930s to the 1960s, neoliberalism had an earlier gestation when the word was used in a positive sense by a network of economists, philosophers, and political thinkers, such as Ludwig von Mises, Friedrich Hayek, and Wilhelm Röpke. These critics had different ideas on why liberalism could or should be given the prefix of 'neo'. In one respect, they drew inspiration from the Victorian liberalism of the nineteenth century but, at the same time, saw a need to not only manage so-called collectivist threats, notably state socialism but also Nazism and corporate monopolies, which impeded their vision of economic and political 'freedom' (Mirowski and Plehwe 2009; Jackson 2010; Peck 2010; Jones 2012). Organised around the Mont Pèlerin Society, these early neoliberal intellectuals were against the eighteenth- and nineteenth-century vision of laissez-faire which, in light of a radically different and turbulent socio-political order, was read by one prominent member as a 'grotesque' basis for future policymaking (Lippmann 2009[1937]: 186). In contrast to some cliché depictions of these writers, many were keen to advocate a strong state, underpinned by the rule of law, as the surest foundation for a viable commercial system (Hayek 2008[1944]). Unsurprisingly, there were disagreements within this wider 'neoliberal thought collective' (Mirowski and Plehwe 2009), such as so-called ordoliberals, like Röpke, who advocated

stricter state intervention to facilitate a social market economy, a position not shared by all in the Austrian school (Cerny 2016; Bonefeld 2017). From the late 1970s, as an adaptable body of ideas, one which was disseminated through particular think tanks and departments of economics, neoliberal political economy began to move from the margins to mainstream policy, particularly in the UK, the US, and France.

It is around this time that the second and now dominant meaning of neoliberalism enters the discourse: an economic (or economistic) reading of 'rule', 'discipline', or even 'tyranny' by markets (Bourdieu 2003; Harvey 2005; Brenner et al. 2010; Peck et al. 2012). It is useful to recall that the main source of this sense was not found in academia but in social activist circles, such as in the opposition to Augusto Pinochet's rule in Chile (Boas and Gans-Morse 2009). Within the Marxist tradition, David Harvey's (2005) contribution stands as an important touchstone for many. For Harvey (2005: 22), neoliberalism can be defined as a theory of political economic practice focused on the pursuit of 'entrepreneurial freedom' within an institutional framework that calls for 'private property rights, individual liberty, unencumbered markets and free trade'. Particular attention has been devoted to the role of financial capital or financialisation as a distinctive feature of the neoliberal era (Krippner 2011; Fine and Saad-Filho 2017). Against socialist, neocorporatist, and certain Keynesian tools of policy management, the primary logic of neoliberalism is, in Harvey's view, to reshape and reconsolidate elite class power, in both its national and transnational configurations (also see Saad-Filho and Johnston 2004; Duménil and Lévy 2011). From the 1990s, this basic pattern of defining neoliberalisation as dictation by privatising 'market forces' found currency in the work of many IPE theorists, including earlier work by Stephen Gill (1995, 1998), as well as more recent applications, such as Stuart Shield's (2012) analysis of post-Communist transition in Eastern Central Europe; Adam Morton's (2011) Gramscian-infused dissection of Mexico's post-1970s makeover; and Huw Macartney's (2011) unpacking of 'variegated' forms of neoliberal rule within the EU, to name but three notable projects.

At the same time, one clearly does not need to be within a neo-Marxist mould to appreciate how dominant ideas and material interests are often coiled together. This leads us to a third starting point for understanding the appropriation of neoliberalism as a term in IPE: the literature found within constructivist and cultural political economy. For some theorists, neoliberal policy ideas, such as those around capital account liberalisation, can be objectified, measured, and weighted, with a view to assessing what precise role they play in policymaking (Chwieroth 2010). Another group of related theorists have explored how neoliberal financialisation has become embedded in

ordinary life, generating important study enquiries (Hobson and Seabrooke 2007). Other theorists have preferred a 'messier', post-positivist view of neoliberalism, one inspired by Foucault (1980, 2008), which treats neoliberalism 'as a flowing and flexible conglomeration of calculative notions, strategies and technologies aimed at fashioning populations and people' (Wacquant 2012: 69). As argued by neo-Foucauldians (Dean 2010; Dardot and Laval 2013), this latter approach tries to elucidate a more diffuse, networked theorisation of capitalist power and its affective forms, including the ongoing remaking of a so-called neoliberal subjectivity. Within this conceptualisation, IPE scholars such as Paul Langley (2008) have been attentive to novel forms of cultural normativity claimed to be reflective of neoliberalism, such as the idea of the 'everyday investor'.

The increasing use of the concept of neoliberalism by IPE theorists can also be explained by larger intellectual trends in the social sciences, the sociopolitical reasons of which often pass underexplored (Eagleton-Pierce 2016). This brings forward a fourth starting point—which shares some overlapping features with the second and third positions earlier—around how the concept has been used within post-Marxist debates. From the 1980s, the general weakening of Marxism and, in turn, the rise of other agendas, particularly around identity politics (gender, race, ethnicity, etc.), led to a search for alternative concepts to 'capitalism'. As Boltanski and Chiapello (2007: xi) have argued in sociology:

> Dethroned from its status of key concept of the 1970s, 'capitalism' has been reduced to an inferior status – a somewhat indecent swearword – because it implied a Marxist terminology that many sociologists wished to forget, but also because it referred to something too 'large', too 'bulky' to be immediately observable and describable via the observation of specific situations.

Thus, for some academics at least, 'neoliberalism' is helpful because it allows those who use it to speak about capitalist phenomena—such as commodity exchange, financialisation, or consumerism, among many other topics—but without recourse to a Marxist vocabulary and set of theories that may be viewed as 'unfashionable' or insufficient. Elsewhere, one could also suggest that 'globalisation', one of the dominant terms of the 1990s, lost a degree of conceptual and policy lustre around the turn of the millennium, probably due to the tarnishing of the word via the alter-globalisation movement. This effect possibly encouraged other scholars to turn to the notion of neoliberalism as a way to refresh scholarly agendas but around an expression that had acquired a sharper critical bite.

As outlined in the introduction to this book, we can see how the theorisation of neoliberalism, similar to other conceptual traditions in IPE, has evolved in relation to commercial changes in the world economy, along with more autonomous academic debates. It is necessary to now discuss this historical relationship between these material and symbolic structures in order to grasp the uses and potential value of neoliberalism as an analytical device. Overall, it can be noted how there has been an increased tendency to view neoliberalisation as a highly complex, often unsteady, and crisis-prone process of institutional regulation, one which has spawned different 'geographies, modalities and pathways' over successive 'waves' of policy reform (Brenner et al. 2010: 182). Given this highly complicated history since the late 1970s, one should caution against not only being misled by clichéd, ideological depictions of 'neoliberalism as free markets' but also the possibility of chiselling a precise definition that can illuminate such diverse conditions and outcomes (Clarke 2008; Venugopal 2015; Eagleton-Pierce 2016). To adopt a different metaphor, if neoliberalism is a moving target, then scholarship needs to be equally adept at moving with it.

Neoliberalism Act I: Late 1970s–Early 1990s

In many accounts of the development of the mainstream neoliberal policy era, attention is devoted to the particular political context within the UK and US from the late 1970s to the early 1990s. It is important to note that 'the New Right'—one of the more common phrases to encapsulate such shifts at the time—did not emerge as a calculated and codified plan by its chief advocates. Although one can always identify certain Machiavellian 'free market purists' at the point of conception, the actual making of 'hegemonic neoliberalism' (Rupert 1990, 1995; Gill 1995) was spawned out of a set of unpredictable socio-economic dislocations and often confusing political struggles. For instance, in the UK, in part inspired by Hayek and Milton Friedman, the first major experiment with privatisation was under Prime Minister Thatcher's administration (1979–90). In the first Thatcher term (1979–83), however, the Tory vision of privatisation was not well-articulated and tended to proceed cautiously and haphazardly, often justified as a quick, revenue-raising mechanism to meet financial needs. After 1983, the rationale became clearer in response to disillusionment with the performance of nationalised industries, particularly coal, rail, and telecoms, which were claimed to 'lack efficiency' and 'competition' (Parker 2009). Thatcher's confrontation with the coal miners' strike (1984–85), in particular, was one of the most serious

industrial disputes in UK history. In the US, under President Reagan (1981–89), a neoliberal agenda proceeded in different ways, notably via reducing tax on high earners (from 70 to 28 per cent); engineering non-inflationary monetary policy; promoting business-friendly initiatives, such as the Commission on Industrial Competitiveness; and facing down union movements, epitomised by the firing of 11,000 air traffic controllers in 1981 who refused to work (Krugman 1995a). One can consider these examples as illustrative of the second major meaning of neoliberalism I outlined earlier.

The turn to neoliberal ideas within Anglo-Saxon capitalist countries was, at the same time, also reshaping the policy orthodoxy elsewhere, shifts that were often led by particular intellectuals (see Beeson (Chap. 13), this volume). Arguing against Keynesian-inspired perspectives, critics such as Deepak Lal (1983), Peter Bauer (1981), and Anne Krueger (1990) helped to usher in 'a counter-revolution in development theory and practice' (Toye 1987: vii). According to these experts, poorer developing countries were not radically distinct from those found in the richer North. Rather, the basic insights of neoclassical economics—notably, conceiving of all agents, both producers and consumers, as rational calculating individuals that respond to price signals—could be applied to all sorts of post-colonial nations across Africa, Asia, and South America. In this sense, history and geography were deemed less important. Similar to arguments heard in the UK and the US, such countries were criticised for 'over-extending' the public sector and channelling resources into grandiose projects that appeared designed by, and for, elites. It was argued that government controls on the economy often worked against trade and financial openness, resulting in negative effects on private enterprise and growth. According to this logic, if poor development performance was found, it was the fault of developing country governments for implementing the wrong policies (Toye 1987). In turn, these ideas progressively found a home at the World Bank and the International Monetary Fund (IMF), an important consequence since such institutions could offer conditionality loans, as well as shape the 'common sense' on development policy advice (Harrison 2004; Chwieroth 2010).

During this first act of neoliberalism, IPE theorists offered a number of contributions for understanding how the global political economy was evolving. These debates often pivoted around how to grasp the larger relationship between state power and commercial markets. In respect to the UK, Andrew Gamble's (1979, 1994) work was significant for offering an empirically rooted and subtle reading of how neoliberalism—which, at the time, he referred to as a 'social market economy' model—required a 'strong state' to function. Although Thatcherism marked a major reconfiguration of power towards

capital, deep cuts to public spending were politically difficult to accomplish, while trade union organising remained robust into the 1990s (Gamble 1994). It is germane to note that the precise phrase 'states versus markets', and even the looser expression 'states and markets'—defining conceptual anchors in many debates on neoliberalism—only became more widely uttered following the end of the Cold War. As noted by many, Susan Strange (1988) was important for helping to fashion an IPE agenda around such macro-questions and, in particular, alerting scholars and other interested readers to how financial markets were evolving into a major 'structure' of power. Strange (1988, 1996) argued that the 'market-authority nexus' was undergoing a troubling development, particularly when it appeared by the early 1990s that governments were losing discretionary freedom in the face of pressure from transnational financial elites. In short, during this period, the term neoliberalism tended to be deployed by IPE scholars as a way to chart and dissect the changing forms of global economic restructuring, including how to explain the evolution of welfarism and the expanding opportunities for capitalism in the context of the post-Bretton Woods monetary order and the later collapse of the Cold War (Cox 1987; Gill and Law 1989; Gill 1994).

Neoliberalism Act II: Mid-1990s–Mid-2000s

From the mid-1990s, when invoked as a critical reference for enhanced capitalist power and 'free market' ideology, the notion of neoliberalism became increasingly common in IPE and related social science fields. With such use, however, the notion became something of 'conceptual Swiss Army knife' for unpicking a bewildering variety of problems across territories and scales (Eagleton-Pierce 2016: xiii). It is in relation to this 'mature' sense of neoliberalism—or neoliberalisation as an unfolding variegated process—that we can now turn to. These uses, in other words, tended to gravitate around the second core meaning outlined earlier, but they also included the fourth sense, that is, as a basic signifier for the present.

When examining major global policymaking trends and commercial shifts around the turn of the millennium, different forms of evidence can be invoked to characterise the entrenchment of neoliberalisation. For instance, privatisation agendas gathered pace during this time, particularly in Western Europe and Latin America, before spreading to all other regions. Policies associated with privatisation varied immensely within these experiments, from the total government withdrawal of certain responsibilities, to restrictions in the volume or quality of public services, to the transfer of public assets into private

hands. Worldwide, the estimated government-derived revenue from all privatisation projects rose from US$ 80 billion in 1995 to US$ 180 billion in 2000 (Megginson and Netter 2001). The trend continued after 2000 but tended to shift from secondary-share public offerings in Western Europe to divestment projects in emerging economies, particularly China (Megginson 2018). In relation to world trade and liberalisation policies, this period featured strong growth and political commitment via the newly established World Trade Organization (WTO), especially in relation to North America and developing Asia trade. From 1995 to 2000, world merchandise exports grew annually by around 7 per cent in volume terms. By 2005, around 31 per cent of world trade was captured by developing countries as a group, up from 20 per cent in the early 1990s. The internationalisation of production led to increasingly complex global value chains (GVCs): by 2011, nearly half of world trade in goods and services took place within GVCs, a rise from 36 per cent in 1995 (Hoekman and Kostecki 2009; WTO 2015).

With the implementation of these agendas, however, neoliberalisation brought forward fresh tensions, disturbances, and contradictions. If such problems had in part been caused by the destructive, 'rollback' of elements of the state under early neoliberalism, the period since the mid-1990s can be defined, for some observers, as a more creative 'roll-out' of state agencies (Peck and Tickell 2002). Depending upon the particular power configurations involved in each context, such struggles took different forms. For instance, through the World Bank, the turn to the larger 'governance' agenda with recipient countries can be highlighted. As argued by Dani Rodrik (2007), the new orthodoxy on development policy is a kind of 'augmented Washington Consensus', one which still contains the core 'Victorian virtue' of 'free markets and sound money' (Krugman 1995b: 29) but now incorporates a range of 'second generation reforms' (Serra and Stiglitz 2008; see also Bernards (Chap. 20), this volume). By the early 2000s, for the World Bank, the success of a neoliberal economy also depended upon the quality of the rule of law, state effectiveness, the control of corruption, voice and accountability, and general political stability. But this problematisation of early neoliberalism was also stimulated by a critique of the gap between neoliberal rhetoric or ideology and how successful countries actually developed. This critique existed in three forms, from its milder versions that called for 'human development' (Sen 1999), through the comparative benefits of the East Asian model of capitalism, where governments played a larger role in the market (Wade 2004) and, onwards, to the stronger attacks issued by public activists within the alter-globalisation movement (Chomsky 1998).

Within this period, IPE scholars advanced more sophisticated analyses of how to plot neoliberalisation. Three themes can be highlighted. First, building upon earlier studies, there was a deeper examination of how neoliberal policies did not entail the retreat of the state but rather its reconstitution, consolidation, or even advancement in particular areas. 'Deregulation', when uttered in a taken-for-granted manner, was therefore a distracting misnomer, as expressed in Steven Vogel's (1998) larger argument that 'freer markets' meant 'more rules'. Drawing upon a Polanyian sense of political economy, other theorists in IPE and adjacent fields suggested that 'embedded neoliberalism'—anchored around 'regulatory', 'managed', and 'social' properties—offered a better description of the 'common sense' of the early twenty-first century (Cerny 2008: 2–3). Such debates were closely associated with how to conceptualise the so-called competition state, that is, the remaking of government, in particular, the welfare state, to make it fit for transnational capitalism (Cerny 1997; Jessop 2002). Second, aided via the larger popular discourse on 'globalisation', there was renewed attention on how the lattice of laws, rules, and norms was forming a global 'constitutional' order in the service of large corporate enterprises (Gill 1998; see also Froese (Chap. 4), this volume). Within these discussions, there was a notable spotlight on how international organisations were propagating neoliberal practices and the forms of resistance this generated, such as at the World Bank (Harrison 2004) and the WTO (Wade 2003; Gallagher 2008; Eagleton-Pierce 2013). A third theme—one which would quickly assume even greater intellectual significance as the global financial crisis struck—concerned the ties between finance and neoliberalism, particularly in respect to US hegemony and the reshaping of the international financial architecture but also in reference to how financialisation, notably debt, had become increasingly normalised (Soederberg 2004; Thirkell-White 2007; Langley 2008; Panitch and Konings 2008).

As is evident, IPE theorists made a number of key theoretical and empirical contributions within this period. However, the most intense conceptual interrogation of neoliberalism was conducted by geographers and sociologists, the leading figures of which have been noted (Peck and Tickell 2002; Harvey 2005; Brenner et al. 2010; Peck 2010; Peck et al. 2012; Wacquant 2012). As the global economy was roiled by the financial crisis of 2007–08, the idea of neoliberalism underwent further academic scrutiny in IPE, resulting in not only new empirical insights but also the start of a critical discussion on whether the concept has now outlived its analytical usefulness.

Neoliberalism Act III: Late-2000s–Present

Given its historical significance and manifold impacts, the global financial crisis now casts a shadow over many debates within IPE. Triggered by rising delinquencies in the US subprime-mortgage market, by September 2008, the crisis entered an acute phase with the collapse of the investment bank Lehman Brothers before generating a major world recession and unfolding set of socio-economic dislocations. In the immediate aftermath of the crisis, a number of commentators and policymakers suggested that the event signalled a watershed moment for neoliberalism, or even its 'endpoint' (Stiglitz 2008). As French President Nicolas Sarkozy boldly declared, '*laissez-faire* is finished' (quoted in Erlanger 2008). However, these initial judgements now appear overcooked, with IPE scholars offering more nuanced examinations on what has changed and how to read financialisation. For instance, Eric Helleiner (2014) has argued that continuity and incremental policy change marks the post-crash institutional landscape, largely as a result of the structural power position of the US. For others, the financial crisis may have shaken some of the material and ideological scaffolding of neoliberalism, but this does not constitute a new era; rather, the latest phase is one where social contradictions have only deepened with an absence of any counter-hegemonic alternative (Overbeek and van Apeldoorn 2012; Major 2012; Van Der Pijl and Yurchenko 2015). At the same time, as policy reforms began to be enacted, the crisis sparked fresh thinking on the overall viability of neoliberalism as an organising concept. For example, Martjin Konings (2009) has critiqued how debates still tend to conflate 'ideological discourse' with actually existing 'neoliberal practices', whereas the latter is often messier than the former.

Beyond financialisation, other IPE debates which conceptually deploy neoliberalism as an anchor have emerged within recent years. Empirical concerns have tracked the roiling waves of the world economy, with a particular interest in understanding geographical diversity beyond Euro-America heartlands. In relation to the WTO, Kristen Hopewell (2016) has dissected how China, India, and Brazil adapted to the trading system through a conscious deployment of neoliberal rhetoric, ideals, and practices, such as via critiques of US protectionist policies in agriculture. Elsewhere, in reference to South America, Tom Chodor (2015) has used a neo-Gramscian framework to chart the so-called Pink tide of left-leaning governments in the region and analyse the extent to which revolts against neoliberal rules have been generating more substantive social change. If class-centric approaches have tended to have a historical prominence in IPE accounts of neoliberalism, more recent work has

interrogated gender as another key category (for an overview, see Bedford and Rai 2010). For instance, Penny Griffin (2009) and Elizabeth Prügl (2017) have debated the World Bank's contested relationship with gender analysis, including how it has sought to establish a positive link between gender equality and growth, along with the various gendered silences and biases in its wider development discourse. A particular debate has focused on critiquing the rise of a so-called neoliberal feminism within business and wider settings (Elias 2013; Roberts 2015; on context, see Fraser 2009). Some of these latter empirical applications of the idea of neoliberalism can, therefore, be housed under my third and fourth major meanings.

At the same time, however, recent years have seen increasing levels of scepticism and worry regarding the utility of the concept of neoliberalism, a conversation that has featured IPE theorists and others in the social sciences. Today, the term has, in some ways, become a victim of its success. Neoliberalism often appears as a ubiquitous and often omnipotent experience, a presumed 'force', which potentially envelops everything (Clarke 2008; Venugopal 2015). This effect of conceptual stretching—including the many oblique, casual and ironic uses of the word—certainly gives the term a 'troubled' status (Peck 2010: 15). Two problems, in particular, can be noted. First, as the concept has been deployed across multiple territories and spaces, scholars have tended to claim that neoliberal practices take hybridised, rather than 'pure', patterns. While this is often a valuable route of enquiry, it can lead to difficulties in not only stabilising any kind of core analytical meaning of neoliberalism but in comparing objects of analysis that may be very different in history and form. A second problem concerns how scholars interpret the concept in relation to social change and how, 'paradoxically, despite failures, doubts, and cynicism, the neoliberal vocabulary often refreshes itself or, at the very least, becomes so normalised that users struggle to imagine what an alternative discourse could look like' (Eagleton-Pierce 2016: xiv). Such usage patterns lead one to question if neoliberalism, as a single frame of reference, may be trying to accomplish too much, prompting some to suggest that scholars would be better addressing the complexity of modern capitalism via other conceptual categories operating at lower levels of abstraction.

Conclusion

This chapter has offered a brief empirical and theoretical history of how neoliberalism has been understood within IPE and adjacent fields. It began by offering four major readings on the concept: as a history of ideas with origins

found in the 1930s; as a system of enhanced capitalist power; as a set of cultural practices or modes of everyday conduct; and as a generic expression to denote the current era. The discussion explored the theorisation of neoliberalism in light of the evolution of the world economy. Such periodisation inevitably comes with caveats on the difficulty of neatly bundling together complex socio-political relations. The 'acts of neoliberalism' outlined here feature blurred edges and, moreover, the conditions of one phase cannot be understood without situating debates in relation to a longer history. As a moving target, neoliberalism requires IPE theorists to be attentive to the labyrinthine forms of power in the global economy. Only through disentangling the rich tapestry of neoliberalism can we grasp how it manifests itself across time and space and how, despite crises and disturbances, it continues to find degrees of resilience.

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9

Comparative Capitalism

Andreas Nölke

In contrast to the heydays of the globalization discourses of the 1990s international political economy (IPE), recent turbulences have highlighted the significance of the differences between country-specific types of capitalism. The financial crisis in the US, the rise of China and the divergences among Eurozone members all demonstrate that capitalism comes in very different forms. Whereas debates about 'Varieties of Capitalism' (VoC) originally emerged in comparative political economy (CPE), the Comparative Capitalism (CC) paradigm now has also established itself in IPE, thereby also overcoming the artificial split between comparative and IPE that is inherent in most other IPE paradigms. In the context of a 'Second Image IPE' (Kalinowski 2015), country positions towards global economic institutions are explained by recourse to their type of domestic capitalism.

However, the CC paradigm not only can be used to answer the traditional IPE question—why states interact in a certain issue area of the regulation of the global political economy in a certain way (see section 'National Economic Institutions as Determinants of Foreign Economic Policies' below) but also for exploring a number of other, broader questions. These include: (1) What is the nature of capitalism in advanced and emerging economies? (2) How can we explain that some economies can grow faster than others? (3) How do international institutions and economic interdependencies affect national capitalist institutions? (5) How can we explain the strategies of multinational

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corporations (MNCs) based on their national origin? And (6) what are the long-term tendencies with regard to the nature of the capitalist order?

Before we discuss the research contribution of CC to each of these questions, let us briefly outline the common basic concepts as well as the conceptual evolution of the paradigm. CC scholarship usually is united by three basic assumptions separating it from conventional economics and Marxism (Jackson and Deeg 2006, 6, 30): firstly, economic achievements and problems are influenced by institutional contexts; secondly, national institutions are particularly important for the development of capitalism; and thirdly, institutions are not easy to change. Moreover, most CC scholarship departs from the assumption that institutional spheres such as corporate governance, financial systems, industrial relations and skill regimes are particularly important for analysing modern capitalism (Jackson and Deeg 2006, 12–20).

Institutional Features of Capitalism in Advanced and Emerging Economies

While some intellectual origins of the CC research programme can be traced back to authors such as Polanyi (1944) and Shonfield (1965), the field began to ripen during the late 1990s. Path-breaking work has been undertaken by scholars such as Albert (1996), Hollingsworth and Boyer (1997), as well as Crouch and Streeck (1997), but the VoC approach as developed by Peter Hall and David Soskice (2001) received by far the most attention. Its basic distinction between liberal market economies (LMEs), as exemplified by the US, and coordinated market economies (CMEs), illustrated with Germany, proved to be an extremely parsimonious, yet immediately convincing, approach for ordering the diversity of modern capitalism. Moreover, it was highly compatible with the rise of institutionalist approaches within the social sciences during the late 1990s and early 2000s.

At the centre of the VoC approach stands the basic distinction between CME and LME. Both types are analysed along the distinction of five institutional spheres (corporate governance, financial system, industrial relations, education and training as well as innovation), and each is governed by a cross-cutting coordination mechanism (inter-firm networks and associations in CMEs, in contrast to competitive markets and formal contracts in LMEs). While the VoC approach has informed many studies in CPE, it has also

attracted substantial criticism (e.g. by Hancké et al. 2007; Bruff et al. 2013, 2015). Particularly prominent are complaints about the narrow geographical base of the original VoC approach, its static and strictly dualistic character (all economies are classified with regard to their proximity to the CME/LME ideal types), exclusive focus on the supply side and neglect of transnational economic interdependencies.

Given the usefulness of the VoC framework, but also the various shortcomings, a second generation of CC research has pursued a 'post-VoC' (Bruff et al. 2015, 34) agenda by broadening the geographical coverage towards Eastern, Northern and Southern Europe, Asia, Latin America and South Africa, by pursuing a stronger focus on historical and political (instead of functional) determinants of economic institutions (including a more prominent role of the state) and by highlighting processes of institutional change within different types of capitalism. The original VoC focus on rational choice institutionalism here has been complemented by historical and sociological institutionalism (e.g. Yamamura and Streeck 2001; Amable 2003; Coates 2005; Jackson and Deeg 2006; Hassel 2006; Becker 2009, 2013; Hall and Thelen 2009; Thelen 2014). While this research provides us with a view on modern capitalism that is closer to the empirical situation at hand, it gives up on the strict parsimony that arguably has been crucial for the rise of the VoC approach towards canonical status in CPE. The same applies to most of the growing body of CC research on emerging economies (e.g. McNally 2007; Carney et al. 2009; Nölke 2010; Nölke and Claar 2013; Nölke et al. 2015; Bohle and Greskovits 2012; Boschi and Santana 2012; Boyer et al. 2012; Bresser-Perreira 2012; Becker 2013; Padayachee 2013; Schneider 2013; Benney 2014; Farkas 2016; Feldmann 2017; McNally 2017; Rougier and Combarnous 2017).

National Economic Institutions as Determinants of Economic Growth

While CC is competing with other analytical frameworks such as the National Business Systems framework (Witt and Redding 2014) with regard to the description and classification of national capitalist institutions, it transgresses the latter by making claims about the determinants of economic growth. At the core of the traditional VoC approach is the claim that, in pure CMEs and pure LMEs, important institutional complementarities between the various

institutional spheres make for competitive institutional advantages, with a focus on incremental innovation in the case of CMEs and radical innovation in the case of LMEs (Hall and Soskice 2001). Quantitative empirical tests, however, come to mixed results with regard to the core VoC claim regarding the general superiority of pure CME and pure LME types in comparison to mixed types in terms of economic growth (Hall and Gingerich 2004). In particular, the comparative institutional advantages of LMEs with regard to radical innovations have to be formulated in more nuanced ways (Witt and Jackson 2016).

Post-VoC scholarship also developed ideas about national institutions as sources of economic growth. A particularly innovative argument has been developed by Ben Ross Schneider (2013), who seeks to explain the slow process of economic development in Latin America. Schneider modified the original VoC argument by arguing that we can not only witness positive institutional complementarities but also negative ones. Thus, for example, the hierarchical capitalism in Latin America shows negative complementarities between low skills and atomized labour relations because the high turnover of workers lowers the incentives for investments in worker training for both workers and employers.

However, the post-VoC research agenda did not respond to the full spectrum of critique against the original VoC approach. In particular, it still kept a focus on the supply side. The importance of the demand side for economic growth is important for a third, somewhat more heterogeneous, generation of CC research. This perspective can be baptized 'Critical Comparative Capitalism' (CCC), since it is relatively more critical regarding existing political structures, with a strong focus on inequalities, political struggles and power (Bruff et al. 2015; May and Nölke 2015; Nölke 2016a). Increasingly, however, CCC scholars do not find their core inspiration in (post-) VoC categories but rather in the (institutionalist) Regulation perspective, Dependency theory and Post-Kaleckian Macroeconomics. These perspectives depart quite strongly from the original VoC approach with its focus on supply-side institutions and companies, since the focus is now often on demand-side institutions, such as collective bargaining, unemployment insurance and regulations of household debt. Explanations for economic growth here do not focus on CMEs and LMEs but on the juxtaposition of growth regimes that are either export-/profit-led or demand-/consumption-/debt-/wage-led (Stockhammer 2011; Stockhammer et al. 2014; Becker 2014a; Baccaro and Pontusson 2016; Baccaro and Benassi 2017).

International Institutions' and International Interdependencies' Impact on National Capitalist Institutions

Recent CC research not only incorporates the demand side but also acknowledges the often-important interdependencies between different capitalist economies and between national economies and international institutions. Correspondingly, it transgresses the confines of CPE and moves into familiar terrain of IPE. In this context, four different issues have received most attention so far: (1) problematic interdependencies between countries linked by a common currency; (2) effects of the rise of emerging markets on Western capitalisms; (3) consequences of financial globalization on domestic capitalism; and (4) impact of liberal international institutions on non-liberal economic models.

Most research in this stream engages with the problematic interdependencies between very different national varieties of capitalism in the Economic and Monetary Union, based on a combination of concepts of (post-)VoC with those of European studies (e.g. Scharpf 2011; Hall 2012, 2014; Höpner and Schäfer 2012; Höpner and Lutter 2014; Hancké 2013a, b; Johnston et al. 2013; Becker 2014b; Hassel 2014; Streeck 2014; Beramendi et al. 2015; Kuokštis 2015; Nölke 2016a, b). Increasingly, post-VoC research is joined by CCC scholarship that comes to quite similar conclusions about the problematic interdependencies between institutionally very different political economies within one currency union (Stockhammer 2011; Stockhammer et al. 2014; Baccaro and Pontusson 2016; Baccaro and Benassi 2017; Becker 2014a; Regan 2013, 2015; Johnston and Regan 2016; Jessop 2014; Gambarotti and Solari 2014).

A second major issue of CCC scholarship is the shift of production towards emerging markets, with a focus on the related tensions within the global political economy (e.g. Nölke 2011a; Bohle and Greskovits 2012; Vermeiren 2014; De Ville and Vermeiren 2016; Suau Arinci et al. 2015). Here, the focus is not only on devising models of emerging market capitalism and developing frameworks in order to understand their growth (or lack thereof) as discussed in the previous two sections but also on examining the impact of integration into the IPE on national capitalisms. Particular attention is being paid to the challenge of emerging economies for Southern European capitalism and to the massive impact of foreign direct investments on the Eastern European transition economies, baptized as 'dependent market economies'.

The 'dependent capitalism' strand of CCC scholarship was able to build on a previous body of research that looked at the effects of transnational economic forces on the development of domestic types of capitalism, with a particular focus on financial markets. Financial market actors such as institutional investors, auditing firms and rating agencies carry the prerogatives of liberal models of capitalism. Correspondingly, they may erode types of capitalism that are organized along non-liberal lines, for example, with regard to traditional systems of patient finance or cooperative labour relations. German CME capitalism usually has been the focus of these studies (e.g. Albert 1996; Nölke 1999, 2004; Nölke and Perry 2007). The global financial crisis has turned additional attention towards the potentially destabilizing factors for coordinated capitalism that have been emerging on global financial markets (Nölke 2009; van Zon 2016).

Relatedly, a fourth strand of CCC scholarship studies the impact of liberal—often private—international institutions on national models of capitalism that do not follow the liberal model. Again, the German-coordinated economy was a prime object of study, with studies on transnational institutions in fields such as competition policy (Wigger and Nölke 2007) and accounting standards (Perry and Nölke 2007; Nölke 2011b), highlighting the potentially corrosive effect for the German type of capitalism. Similarly, the highly problematic effects of liberal international institutions on capitalism in developing countries and emerging economies are being studied from a CC perspective, with a particular focus on 'deep integration' of EU and US trade agreements (Nölke and Claar 2012; Claar and Nölke 2013).

National Economic Institutions as Determinants of Foreign Economic Policies

Also, with regard to emerging markets, particularly the case of China, CC recently has been used in order to develop a domestic institutions perspective in order to explain foreign economic policies (Nölke 2015a; see also Mohan and Urban (Chap. 16), this volume). Thus, compared to the previous section, 'dependent' and 'independent' variables are being reversed. Whereas the section 'International Institutions' and International Interdependencies' Impact on National Capitalist Institutions' discussed the impact of foreign influences (including international institutions) on national models of capitalism, this section discusses national models of capitalism as determinants of government

positions towards international economic institutions, reflecting the pioneering work by Orfeo Fioretos (2001, 2010, 2011).

Waltz's (1959) distinction of the three images of international relations is useful in order to situate the CC perspective in IPE scholarship. It is a 'second image' explanation which highlights the domestic level as a source of conflict and cooperation, in contrast to the first level (human nature) and the third level (structure of the international system). Whereas Waltz himself clearly favoured the third level, the second image approach has been most prominently elaborated by Katzenstein (1976). In contrast to theorizing in neorealism or liberal institutionalism, second image approaches do not derive their predictions from the distribution of power within the international system or the influence of global institutions and norms but rather from domestic features of the countries under scrutiny. While Katzenstein originally developed his approach for the study of the foreign economic policies of small states, the second image perspective arguably is even better suited for the study of the US, China and other large countries. Very large countries naturally carry a strong domestic orientation and, therefore, require analytical instruments that are able to make sense of these domestic features. Within the general second image perspective, CC approaches arguably are particularly well-suited for the study of the foreign economic policies of non-democratic countries, given that they do not depend on the established actor-based concepts of liberal societal approaches such as interest groups and party politics (see Schirm (Chap. 7), this volume).

Recent applications have developed CC in order to explain the rising importance of Chinese outward foreign direct investments (ten Brink 2015), the very careful steps of the Chinese authorities towards Renminbi internationalization (Otero-Iglesias and Vermeiren 2015; McNally 2015), the gradual liberalization of China's capital account and the 'mainstream' role of the Chinese government in international banking regulation (Nölke 2015b). All of these studies highlight the importance of Chinese state-permeated capitalism for understanding the Chinese behaviour with regard to foreign economic policies and international economic institutions. However, the application of CC for the explanation of foreign economic policies of emerging economies does not have to be limited to China. This is evident in Kalinowski's (2013, 2015) studies of the interactions between coordinated, liberal and state-driven economies in global financial market regulation and the influence of the East Asian developmental state model on China, Japan and Korea in the G20.

National Institutional Context and Multinational Corporation Strategies

Categories of CC cannot only be applied in order to explain the behaviour of states in foreign economic policies but also those of MNCs. Usually, MNCs from emerging markets are the focus of this research. These corporations have witnessed a steep rise over the last two decades, as indicated by their prominence in listings such as the United National Conference of Trade and Development (UNCTAD) Global Investment Report, the Fortune Global 500 and the FT Global 500. In order to understand the steep rise of these companies, international business scholars have developed or modified long-established analytical instruments. The CC categories here allow us to take a more detailed and systematic view of the institutional background of these emerging market multinationals and to develop additional explanations for their rise (Taylor and Nölke 2010a, b). CC-inspired research has highlighted the importance of comprehensive state support in this context, baptizing this phenomenon 'State Capitalism 3.0' (Nölke 2014a, b).

Moreover, major MNCs, traditionally, are important lobby actors with regard to global economic norms (Detomasi 2014). They have been crucial for global norms on intellectual property rights and trade in services and have also had an important impact on global climate governance and banking regulation. This raises the question about the impact of emerging market MNCs within global economic governance. Since these companies mostly have been busy with expanding their operational activities, they have rarely found the opportunity to invest many resources into comprehensive lobbying. CC research here allows us to develop hypotheses about the likely future direction in this field based on the assumption that MNCs will strive for types of governance that are in line with their familiar institutional context. These hypotheses point towards a more statist approach towards global governance. Statism likely will affect the most suitable fora (inter-governmental cooperation instead of transnational private governance) and the importance of safeguarding policy space for state interventions (Nölke and Taylor 2010; Nölke 2011c).

Long-Term Tendencies with Regard to the Nature of the Capitalist Order

Building upon results of research in the previous two sections, CC can also be used in order to gauge some long-term developments in the global political economy. Departing from the assumption that the most powerful countries

will try to make sure that global economic institutions are in line with their own national institutions, CC can be used in order to develop hypotheses about a future global order that is not led by the US but by China and other large emerging markets (i.e. in case the 'Washington Consensus' would be replaced by a 'Beijing-Delhi-Rio Consensus'). In order to do so, we first have to highlight the linkages of existing global economic institutions with those of LME capitalism. Next, we need to identify those issues where the institutional context of emerging markets' economies and MNCs not only is different but also potentially creates tensions with the liberal economic order. Finally, we need to consider how global economic institutions would look like that avoid these tensions (May and Nölke 2014; Nölke et al. 2015).

To illustrate this type of reasoning we may, for example, point towards the differences between LMEs, CMEs and the State-permeated Market Economies (SMEs) of China and India. Whereas LMEs thrive on transnationally liberalized financial markets and CMEs have come to terms of the latter, SMEs usually protect their domestic financial markets, for example, by using capital controls. The liberal global economic order, however, clearly is in favour of the abolishment of capital controls. A post-liberal global economic order supported by the large SMEs, in contrast, would allow developing countries and emerging markets full leeway for the protection of national financial systems, in this case, by managing capital movements; we can also see some early steps into this direction at the International Monetary Fund (IMF) (Gallagher 2015).

A long-term CC research agenda could take these considerations even one step further. If we look back in the history of capitalism, we can identify different phases of capitalism broadly conceived. Arguably, the current phase of capitalism can be identified as the period of 'financialization' or 'neoliberalism', whereas the three decades after the Second World War can usefully be conceived as the phase of 'Fordism' or 'embedded liberalism'. Based on the observations made earlier, but also on current developments in Western political economies such as the rise of populist parties, we may argue that we are witnessing the beginning of a new phase of capitalism that will be less liberal and more organized (Nölke 2012, 2017; Nölke and May 2013). However, this kind of reasoning clearly transgresses the confines of the conventional country-focused CC analytical framework. In order to compare phases of capitalist development, we rather should engage with theories about the long-term development of capitalism, such as the Social Structures of Accumulation (SSA) approach and its ideas about the pendulum between liberal and regulated phases of capitalism (Coates 2005).

Conclusions

Over the last two decades, CC has increasingly established itself as an increasingly important paradigm in IPE, not to mention becoming canonical in CPE. By now, it is able to provide answers to some core questions of IPE, such as the nature of capitalism in different economies, the determinants of economic growth, causes for foreign economic policies and for foreign direct investment, as well as long-term tendencies in the global economic order. It will be up to systematical empirical research to determine whether these answers are better suited to explaining contemporary economic realities than the answers provided by established IPE theories. Since discussions in CPE increasingly take international institutions (such as the EU) and economic interdependencies (such as the ones caused by the rise of emerging markets) into account, this development can potentially reverse the unholy separation of Political Economy into CPE and IPE that has been established for more than 50 years.

Moreover, the CC perspective not only unites perspectives from political economy and economic sociology, but—in its third generation—it also extends to (heterodox) economics, in particular of a post-Keynesian origin. Correspondingly, the debate about institutional differences between national types of capitalism, their origins and their implications for foreign economic policies and the international economic order is well-suited to serve as a major analytical focus for a broad and more pluralist IPE.

Finally, the most recent CC foray into debates about the nature of the global economic order and the long-term development of capitalism could become an important topic of debates for comparativists, international relations scholars and political economy theorists. Even if the most suitable theoretical approaches for this debate are quite different from the country-comparative approaches discussed throughout this chapter, the institutionalist CC approach can still serve as a major source of inspiration for research about the future of the global order.

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Part II

Global Reordering

10

Small and Least-Developed Countries

Tony Heron

In the twenty-first century, the position of the Global South in the international order has been transformed out of all recognition. The most visible manifestation of this is the rapid emergence of the Brazil, Russia, India, China ('BRICs')—especially China—alongside numerous other rapidly emerging economies. In the period since the 2007–2008 global financial crisis, in particular, the contrasting trajectories of the Global North and Global South are marked. In January 2017, the Chinese president Xi Jinping delivered a speech at the World Economic Forum in Davos, Switzerland, in which he likened economic protectionism to 'locking oneself in a dark room'. This speech was well timed because it coincided, almost to the day, with Donald Trump's inaugural address when the newly elected president laid out a manifesto based on precisely what Xi Jinping was warning against. 'Protection', Trump stated boldly, 'will lead to great prosperity and strength'.

As a metaphor for the changing distribution of global and economic power, the significance of these two contrasting speeches could not be clearer. Yet, for the numerical majority of developing countries, the story of the early twenty-first century is not one of rapid emergence but of enduring vulnerability. In this chapter, I focus on this group of countries. More specifically, I look at two sets of countries—small and least-developed countries (SLDCs)—and their status and role in the International Political Economy (IPE). It is usual to treat small developing states (sometimes equated with the somewhat narrower

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Table 10.1 Small and least-developed countries

LDCs	Small states
Africa	*Africa*
Angola, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, **Lesotho**, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Somalia, Soa Tome Principe, Senegal, Sierra Leone, Sudan, South Sudan, Tanzania, Togo, Zambia	Botswana, **Lesotho**, Namibia, Mauritius, Seychelles, Swaziland
Asia	*Asia and Oceania*
Bangladesh, Bhutan, Cambodia, Lao People's Democratic Republic, Myanmar	Brunei, Fiji, Kiribati, Maldives, Nauru, Papua New Guinea, Samoa, **Solomon Islands**, **Tuvalu**, **Vanuatu**
Oceania	*Latin America and the Caribbean*
Kiribati, **Solomon Islands**, **Tuvalu**, **Vanuatu**	Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago
Latin America and the Caribbean	*Europe and the Middle East*
Haiti	Cyprus, Malta

Sources: https://www.un.org/development/desa/dpad/least-developed-country-category.html, http://thecommonwealth.org/small-states

concept of 'small island developing states' (SIDS) and least-developed countries (LDCs) separately, as the two groups are defined by distinctive characteristics and problems. As Table 10.1 shows, it is only in four cases—Lesotho, Solomon Islands, Tuvalu, and Vanuatu—that the two categories overlap.

Despite notable differences between small developing countries and LDCs, there are a number of compelling reasons for considering their development predicament as shared (Heron 2013). Typically, both SDLCs are defined by narrow resource bases, high debt ratios, and export roles dependent on preferential access to developed country markets. These states have been at the forefront of global restructuring—especially the dismantling of the preferential trade regimes established in the post-war period. In the next section of the chapter, I show how SLDCs came to be defined, not on the basis of objective criteria but due to the specific ways in which their postcolonial trade relations with the Global North were managed. Hence, SLDCs were—and are still—defined by their status and role in the economic order established after the

Second World War. In the third section of the chapter, I turn to the question of 'actorness' as it relates to the ways SLDCs have adjusted to processes of global restructuring. Here, I illustrate two key strategies—'internal' and 'external' agency—which have been identified by IPE scholars as mechanisms that SLDCs have adopted, albeit with varying degrees of success, to manage the vulnerabilities associated with global restructuring. Finally, I conclude by considering the overall position of SLDCs in the emergent global economic order.

Small and Least-Developed Countries in the Post-war Economic Order

The parlance of International Relations (IR) and IPE is littered with different, competing, alternative, and overlapping ways of describing and classifying developing countries (Payne and Phillips 2010). The LDC concept, however, stands out as more or less unique, in that it has a legal as well as a classificatory basis. Its origins are to be found in early post-war efforts to enshrine principles of 'special and differential treatment' in the nascent General Agreements on Tariffs and Trade (GATT) regime. These efforts led to the creation of 'Part IV' of the GATT in 1964, the Generalised System of Preferences (GSP) in 1971, and the Enabling Clause (EC) in 1979. In essence, the EC provided a derogation from Article I (non-discrimination) of the GATT to allow developed countries to grant (non-reciprocal) GSP preferences to developing countries, provided that these did not discriminate between developing countries. (The attentive reader will have spotted an anomaly in that it did not specify whether all developing countries or just LDCs would be eligible for these preferences or how developing countries were to be distinguished from developed countries to avoid said discrimination.) According to Robert Hudec (1987), the GSP was by design a 'permissive not mandatory' regime; in other words, while the developed countries could, for the first time, legally offer non-reciprocal trade preferences, there was nothing requiring them to do so.

The LDCs category—alongside part IV, the GSP, and the EC—was a product of a process of adaptation and adjustment as the developed countries responded (albeit in many cases reluctantly) to the changing numerical balance of the GATT's membership. Yet, the concessions that emerged out of this process tended to be both ad hoc and ambiguous, reflecting the GATT's peculiar legal and institutional personality. At the time, this ambiguity

appeared to serve both the developed and developing countries. In the case of the LDC category, the United Nations Conference on Trade and Development (UNCTAD)—the organisation charged with defining eligibility for the GSP—initially settled on the principle of 'self-declaration' to maintain solidarity within the developing country bloc. In November 1971, however, the LDC category was formally established based on three criteria: (1) Gross Domestic Product (GDP) income of US$ 100 or less; (2) manufacturing as a proportion of GDP of 10 per cent or less; and (3) an adult literacy rate of 20 per cent or less. This definition has since been revised and updated, but the two critical points are these. First, since 1971, the original list of 24 LDCs has grown to 48, but in this time, just four countries—Botswana in 1994, Cape Verde in 2008, the Maldives in 2011, and Samoa in 2014—have (at the time of writing) graduated from the category. Second, in matters of trade, the LDC category remains the only legal basis on which the World Trade Organization (WTO) members can discriminate between developing countries; by contrast, the legal status of non-LDC developing countries (which make up approximately half of the WTO's entire membership) remains a matter of self-declaration.

The small developing states category is characterised by a set of related—but different—conceptual and practical ambiguities. One source of confusion is that the understanding of what constitutes a 'small state' in IPE is radically different to that found in Comparative Political Economy (CPE), where the usage has been heavily influenced by Peter Katzenstein's (1985) *Small States and World Markets,* which focussed on the small but advanced capitalist states of Northwestern Europe. It is the IPE understanding that I am concerned with in this chapter. Here, the most commonly cited definition of a small state is that provided by the Commonwealth Secretariat (1997): that is, a population of no more than 1.5 million people or otherwise, comparable due to reasons of history and geography. Generally speaking, small states, according to this definition, can be distinguished from LDCs, not just because of their size (with one or two exceptions) but also because they tended to gain their independence later. As a political construct, the small states category was largely a by-product of the UK's accession to what was then the European Economic Community (EEC) in 1975. Prior to this, the EEC had overseen a system of trade preferences for 18 or so former colonies of France and Belgium, under the so-called Yaoundé protocol. The UK accession to the EEC, however, brought with it responsibility for an additional 28 countries (the total figure of former colonies eligible for EU preferences would reach 71 by the year 2000). Although not all these states could be classified as 'small', about two-thirds of them were.

As a matter of circumstance, the UK accession to the EEC coincided with Third World demands for New International Economic Order (NIEO). These two factors combined help to explain the nature and character of the subsequent Lomé protocol (1975–2000)—the trade and aid regime that became the centrepiece of the EU's postcolonial relationship with its former colonies. Here, the contrast between Lomé and the aforementioned GSP is of some significance. While the GSP was both non-discriminatory and GATT consistent, in substantive terms it amounted to not much more than a 'best endeavour' commitment. By way of comparison, trade preferences granted under Lomé (including lucrative commodity protocols for bananas, beef, rum, and sugar) were legally contractual and, therefore, could not be altered or withdrawn unilaterally. The Lomé regime also reflected some of the other demands emanating from the NIEO, including a financial mechanism in the form of the European Development Fund (EDF), plus compensatory mechanisms to assist countries suffering price fluctuations for primary commodities (STABEX), and to guarantee the production of certain minerals (SYSMIN) (see Sneyd and Enns (Chap. 35), this volume). Finally, Lomé was governed by an elaborate set of joint institutions, including a Council of Ministers, Committee of Ambassadors, and Joint Parliamentary Assembly.

The Lomé regime thus constituted something of a paradox in the post-war trade architecture. Although its existence was difficult to square with GATT trade norms, it appeared to rest on precisely what the GSP lacked: namely, a set of specified legal obligations according to which trade preferences and other forms of development cooperation could operate. On the crucial point of eligibility, however, Lomé was legally problematic because membership of the protocol was based on little more than historical accident. The full significance of this anomaly only became fully apparent following the establishment of WTO in 1993, which turned out to be the catalyst for the abandonment of Lomé and the protracted but inexorable move to reciprocal free trade (more of which is explained later). Yet, the GSP did not fare much better. Although it certainly appeared to be on firmer legal ground than Lomé, the 'best endeavour' character of the GSP meant that all decisions regarding the duration of preferences, graduation, product coverage, and preference margins were left entirely to the discretion of the preference-granting country (Hoekman and Özden 2005). The creation of the WTO did not change any of this; it merely strengthened the dispute settlement procedures to ensure that the key principle of non-discrimination was upheld. Aside from the LDC category, the GSP still rested on the principle of 'self-declaration'—a fact that explains why the development commitments made during the Uruguay Round (1986–1993) proved so difficult to operationalise and why the subsequent Doha Round

(2001 onwards) failed to produce a package of development measures capable of satisfying the institution's disparate membership. The upshot of all of this is that, for SLDCs alike, the strengthening of multilateral trade disciplines decreed the obsolescence of traditional forms of trade assistance without specifying or mandating alternative measures capable of meeting the needs of these countries in ways consistent with the principle of non-discrimination.

The 'Internal' Agency of Small- and Least-Developed Countries: Overcoming Vulnerability Through Developmentalism

The rise and fall of preferential trade in the post-war economic order points to the enduring vulnerability and marginality of SLDCs. Yet, in recent years, IPE scholars have highlighted the domestic capacity of SLDCs, specifically as it applies to the concept of the developmental state. Here, the most celebrated cases, including Barbados, Botswana, Chile, Costa Rica, Singapore, and Mauritius, have shown that, in the presence of severe structural constraints but with favourable political and economic circumstances, it is possible for small, weak, and economically vulnerable states to chart an effective development course. The case of Mauritius offers a good illustration. Since the early 1980s, Mauritius—a tiny island off the coast of Madagascar with a population of just 1.2 million people—has recorded one of the world's most sustained periods of economic growth and poverty reduction. According to Richard Sandbrook (2005), the key to Mauritius's economic transformation in the post-war period lay in its colonial inheritance, which was more or less unique among plantation-based economies. Mauritius was uninhabited until the arrival of Dutch settlers at the end of the sixteenth century, meaning that the island constituted a capitalist social formation from the very beginning. The importance of this, Sandbrook (2005, 570) suggests, is that Mauritius largely avoided the reactionary politics of neopatrimonial rule and clientelism associated with peasant-based colonial societies. Instead, Mauritius 'developed a powerful mercantile and agrarian bourgeoisie, a large class of landowners and merchants, and a rural and urban proletariat'. This, Sandbrook concludes, ultimately formed the basis of 'a disciplined capitalist state', paving the way for an eventual 'social-democratic class compromise'.

In more recent times, the economic performance of a select group of continental African states has led to comparisons with the likes of Mauritius. Here, the cases of Ethiopia and Rwanda stand out. Like Mauritius and its East

Asian forbearers—but unlike larger continental African states such as Angola and Nigeria—Ethiopia and Rwanda have achieved sustained economic growth and poverty reduction with little in the way of natural resource endowments. Similar to East Asia—but this time unlike Mauritius—this economic dynamism has been built on the monopolisation of political power: namely, the People's Revolutionary Democratic Front (EPRDF) since 1991, in Ethiopia and the Rwandan Patriotic Front (RPF), since 1994, in Rwanda. In both cases, the monopoly of power has inculcated what Chalmers Johnson (1982) referred to as a 'development orientation' on the part of the political elite, not least as a mechanism for ensuring regime survival. This has entailed a prominent role for the state bureaucracy as economic entrepreneur, specifically through the use of party and military-owned firms, majority shareholding of key financial institutions, and through state control of major strategic assets, most notably land (Goodfellow 2017: 553). Finally, Ethiopia and Rwanda share with the developmental states of East Asia the characteristic of 'systemic vulnerability' (Doner et al. 2005), linked to the absence of natural resources, the fear of domestic political upheaval and external security threats. In these cases, moreover, the condition of systemic vulnerability extends to factors not present in East Asia, including landlockedness, high external debt ratios, and a consequent dependence on the support of external donors and financial institutions. The key summative point, however, is that the recent growth and development experience of Ethiopia and Rwanda appears to show that, even in the presence of acute systemic vulnerability, small, resource-poor states with limited human capital and bureaucratic capacity can effect successful, albeit imperfect, development strategies.

The 'External' Agency of Small- and Least-Developed Countries: Overcoming Vulnerability Through External Diplomacy

In the same way that IPE scholars have highlighted the domestic capacities of SLDCs in recent years, there has been an equivalent literature celebrating their external capacity or diplomatic power. This literature builds on the long tradition of work in IR, testifying to the ability of SLDCs to 'punch above their weight' (Bishop 2012). The novelty of more recent contributions is that they have sought to add a constructivist twist to the 'small states diplomacy' literature. Donna Lee and Nicola Smith (2010), for example, pointed to the need to reject the structural-material determinism of realist conceptions of

state power in favour of a constructivist ontology, sensitive to the social and discursive processes by which SLDCs can and do exercise more agential power than their inferred material capabilities would suggest. In their edited volume, *The Diplomacies of Small States: Between Vulnerability and Resilience,* Andrew Cooper and Timothy Shaw set out a similar research agenda. In this case, Cooper and Shaw drew on the concept of resilience and contrasted this with the concept of vulnerability to highlight the 'creative agencies' of small states. Specifically, they distinguished between '[v]ulnerability as a naturally imposed and predictable condition in which the room for manoeuvre is severely curtailed. Resilience by way of contrast is adaptive, allowing structural factors to be resisted and reshaped' (Cooper and Shaw 2009: 4). Accordingly, the case studies contained in *The Diplomacies of Small States*—such as Iceland and Malta in relation to fisheries and development aid, respectively, or the 'Cotton Four' (Benin, Burkina Faso, Chad, and Mali) and Antigua in relation to the WTO—are testament to Cooper and Shaw's contention that small states are not only resilient (in the sense of being able to withstand or respond to external economic shocks) but also resourceful and significant actors in key arenas of the IPE.

While none of this can be denied, there are, nonetheless, several problems with the resilience framework. First, it is not entirely clear that the substitution of resilience for vulnerability necessarily supports Cooper and Shaw's contention that the former provides the means to overcome the latter. Jonathan Joseph (2013), for example, albeit writing in a different context, has described resilience as a form of 'embedded neoliberalism'. By this he means that, although it is typically used and understood as a systems-level concept, resilience policy framings and discourses—especially in the Anglo-Saxon world—constitute forms of 'governmentality', which place the emphasis on individual responsibility and adaptability. Applied to SLDCs, this critical reading would suggest that 'being resilient' means that the responsibility for adjusting to the vulnerabilities associated with globalization falls upon the individual states themselves. Second, and related to this, Matthew Bishop (2012) has taken resilience scholars to task for equating vulnerability with weakness. As Bishop (2012: 952) explains:

> [V]ulnerability is not the same as weakness and, moreover, it does not preclude the exercise of creative agency. Small societies and their people clearly can and do engage in a range of productive and highly profitable activities which in turn often engender significant levels of economic, political and social development. Yet this does not alter the fundamental fact that they still remain intrinsically vulnerable. It is far from clear, then, that any small state has truly gone beyond resilience and outgrown its inherent vulnerability.

According to Peg Murray-Evans (2015), this theoretical blind spot stems from a deeper source of confusion evident in much SLDCs scholarship. In this case, Murray-Evans focusses on 'African agency' (Brown and Harman 2013)—an emergent literature that shares many similarities and, indeed, significant overlaps with the resilience framework discussed earlier. The main tenor of the African agency literature is its rejection of the 'Afro-pessimism' that supposedly marked African studies in the 1990s and early 2000s, which stressed the 'extraversion' of local elites in the maintenance of weak and predatory forms of statehood. By contrast, the African agency literature is argued to offer a more optimistic view of the continent by highlighting the positive, emancipatory potential of African states and their civil societies in international politics. Accordingly, agency here is conceptualised as 'the ability of African actors to have a significant impact on international political processes' (Murray-Evans 2015: 1848). Murray-Evans argues that this conceptualisation—measured largely by the ability of African states to resist externally imposed policy agendas—rests on dubious ontological foundations. According to her, to equate agency (as an ontological presupposition) with influence or impact (an empirical claim) serves to obscure rather than clarify the different strategies adopted by African actors and the different outcomes that these strategies lead to. Hence:

> If the focus of the African agency literature falls only on those African actions that are expressed in the form of successful influence, contestation or resistance, we may miss the wide range of African actions that serve to perpetuate existing structures or that are simply geared towards coping and survival within a highly unequal global system. (Murray-Evans 2015: 1847)

Like Bishop, then, Murray-Evans's argument is not that African states lack agency but rather that defining this in terms of influence or impact depends on a degree of selection bias in the choice of cases or is otherwise unable to account for why African agency is manifest in certain policy arenas but not in others. The solution to this problem offered by Murray-Evans is a methodological one. By offering an explicit separation between agency and influence or impact, she argues, we have a more nuanced and ontologically consistent framework with which to observe and analyse the cause and effects of Africa in international politics. For these purposes, agency is defined in constructivist terms and equated, not with power (or influence) but with reflexivity: that is, 'the ability or capacity of an actor to act consciously and, in so doing, to attempt to realise his or her intentions' (Hay 2002: 94). The key point is that, even though the global position of small and vulnerable states in Africa and

elsewhere is governed by their materially weak position, this position still requires interpretation and a purposeful response.

To illustrate her methodological approach, Murray-Evans uses the successor to the Lomé regime discussed earlier: the so-called Economic Partnership Agreements (EPAs) between the EU and the African, Caribbean, and Pacific (ACP) group of countries. The EPAs represent a highly appropriate case study, since they arguably represent the most widely celebrated instance of small state agency in recent years. Initially, the EPAs—that is, fully reciprocal free trade agreements designed to replace the unilateral trade preferences granted under Lomé—were expected to produce outcomes that reflected the power imbalance between the EU and the ACP. In practice, however, the negotiations produced a range of strategic responses and divergent political outcomes in different regional settings. The EU-CARIFORUM EPA, signed in 2010, came closest to the EU's original prospectus but was, nevertheless, puzzling, since it was the region in which trade and aid flows were of diminishing importance and where the EU's economic leverage appeared to be relatively weak. Explanations in this case thus focussed on non-material factors, specifically the degree of ideological convergence between elites in the Caribbean and their EU interlocutors, regarding the merits of reciprocal free trade (Heron 2011; Nyaga Munyi 2015). Similarly, Silke Trommer (2013) highlighted the way that ACP governments in the West African regional configuration were able to challenge the EU's free trade agenda by seizing on ambiguities in the legal frameworks governing the international trading system (see also Froese (Chap. 4), this volume). In her own work, Murray-Evans focusses on the case of the 'SADC-minus' group, which she argues was split between 'sceptics' and 'enthusiasts', whose individual preferences were determined by different material incentive structures, but which were interpreted through distinct ideational frameworks. Somewhat controversially, Murray-Evans concludes that, such was the divergent response of Southern African states to the EPA prospectus, regional cooperation served to weaken rather than strengthen the negotiating leverage of the SADC-minus group vis-a-vis the EU.

Drawing these various accounts together, two essential conclusions about the external agency of SLDCs can be inferred from the EPA negotiations. First, contrary to standard trade literatures based on trade dependence, EPA outcomes were only weakly correlated with material incentives. Instead, the negotiations revealed a high degree of reflexivity and strategic selection on the part of individual ACP regions and states, albeit from a limited choice set. Second, the growing influence of constructivism in the SLDCs' literature has shown a way forward beyond the traditional structuralist-intentionalist divide. Specifically, the illustrative case of the EPAs shows that, even for small, weak,

and vulnerable states, political outcomes cannot simply be read off from the material context. Rather, this context needs to be interpreted and acted on by purposeful agents. It is thus the interplay between material structures, ideational frameworks, and agental responses that determine outcomes (see Cooper (Chap. 37), this volume). This conclusion, however, comes up against an ontological problem that is now familiar in mainstream economic constructivism (Siles-Brugge 2014): that is to say, is it possible for outcomes to be explained as a consequence of *both* material conditions and ideas?

One way to square this circle is by considering material and ideational influences as appealing to different logics that may be convergent or divergent at different times and under different circumstances (Parsons 2007; Heron and Murray-Evans 2017). In the specific case of the EPAs, a key feature of the EU's prospectus was that it rested on the strategic invocation of an *institutional* logic—that is, reciprocal free trade was necessary to satisfy WTO trade rules—and an *ideational* or normative logic—that is, trade liberalisation would promote development through strengthening economic competitiveness. In other words, the EU did not and could not base its case for reform entirely on its material power; instead, it was necessary to persuade the ACP countries of the legitimacy and necessity of this action by appealing to legal and institutional constraints. This strategy was initially strengthened by a strong convergence between the EU's preference for freer trade and regulatory harmonisation and the direction of travel of the WTO, given the early ambition of the Doha round in controversial issue areas like services, investment, and competition policy. The fact that the EU continued to insist on the retention of these issues in the EPAs even after they were dropped from the Doha agenda pointed to an incongruence between the institutional and ideational aspects of its argumentation. In other words, the EU's continued appeals to WTO rules as an external constraint actively undermined its normative case for the EPAs because it appeared that it was making spurious claims about WTO compatibility while pursuing its own agenda that was much more ambitious than these rules required. In sum, it was this incongruence that created the discursive space for the ACP to exercise their agency—and power—to question the EU's claims and to reject comprehensive free trade and demand more bespoke agreements.

Conclusion

I began this chapter by drawing attention to the changing distribution of global economic power. The full extent as well as the longer-term implications of this change are obviously still to be fully determined. For the SLDCs, it is

difficult to see circumstances in which their established role as both price- and rule-takers is likely to change—they neither possess the economic potential nor, in most cases, the strategic assets to trouble the emerging powers. This does not mean that their fate is preordained. I have shown in the chapter that SLDCs have demonstrated their capacity to influence outcomes at home and abroad. But clearly not all SLDCs have achieved the same level of progress. The fact that relatively few have managed to emulate, say, Mauritius's development success suggests that domestic politics does matter but perhaps only up to a certain point. Even so, the more recent examples of Ethiopia and Rwanda appear to show that state activism is still possible, despite the supposedly punitive constraints of neoliberal constitutionalism. In any case, I have shown that, theoretically speaking, the significance of SLDCs in IPE does not necessarily hinge on their power or influence, even though this has been demonstrated in many instances. Drawing on constructivist insights, wherein political agency is expressed in terms of reflexivity and strategic selection, the key point to understand is the material and ideational circumstances in which actors articulate their interests and make political choices. This question matters as much for small and vulnerable states as it does for large and more powerful ones.

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11

Global Middle Classes

Jeff Dayton-Johnson

Introduction: The Political Economy of the Middle Class from Confucius and Aristotle to William Easterly (Fourth Century BCE–2001)

The notion that a robust middle class has a salutary effect on society at large can be traced back in Western thought at least as far as Aristotle in the fourth century BCE. In his *Politics*, Aristotle reasoned that:

> A city ought to be composed, as far as possible, of equals and similars; and these are generally the middle classes. Wherefore the city which is composed of middle-class citizens is necessarily best constituted in respect of the elements of which we say the fabric of the state naturally consists. And this is the class of citizens which is most secure in a state, for they do not, like the poor, covet their neighbors' goods; nor do others covet theirs, as the poor covet the goods of the rich; and as they neither plot against others, nor are themselves plotted against, they pass through life safely. Wisely then did Phocylides pray—'Many things are best in the mean; I desire to be of a middle condition in my city' (Barnes 1984).

Parts of this chapter draw upon ideas initially developed in two earlier pieces (Dayton-Johnson 2015, 2018). I am grateful to Pía Riggirozzi, Tim Shaw, and Christopher Wylde for comments on those earlier publications, and to Henri-Bernard Solignac-Lecomte for his guidance regarding the African middle class.

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In classical Chinese thought, the concept is older still. The celebrated *Classic of Poetry* (詩), dating from the eleventh to seventh centuries BCE, whose compilation is attributed to Confucius, extols the virtues of *xiaokang* (小康社会) or 'moderate prosperity' as an antidote to social violence. The notion of *xiaokang* has been drawn upon by more contemporary Chinese political leaders, beginning with Deng Xiaoping and continuing through Xi Jinping.

Contemporary political-economy accounts of the consequences of middle-class growth for economic performance bear a strong family resemblance to the Aristotelian-Confucian line of argument. A 2001 paper by economist William Easterly (then at the World Bank) analyses the relationship between the middle-class share of national income and economic growth (also accounting for other important variables, ethnic fractionalization among them). Easterly finds that a higher middle-class income share is associated with higher income levels and growth rates, as well as better social and physical infrastructure, better policymaking, and lower levels of conflict (among other beneficial outcomes). Easterly attributes the statistical relationship he uncovers in his cross-country regression analysis to the peaceable effects of a 'middle-class consensus,' not unlike the gnomic Phocylides's observance that 'many things are best in the mean'.

In low- and middle-income economies of the Global South, analysis of the middle class is quite recent, as poverty—oftentimes extreme poverty—best described the condition of the majority in many countries until recent decades (see d'Alessandro and Besada (Chap. 24), this volume). In such circumstances, modern-day Aristotelian-Confucians would be more concerned with the poor majority's covetousness of the rich minority's goods and of both groups' destabilizing plotting against each other. In more recent analyses, however, business people, political leaders, and scholars have supposed, like Easterly, that the changing income and wealth distributions of some low- and middle-income countries provide stabilizing effects on those countries' political economies.

And today, this political-economy discussion is set against the backdrop of the remarkable emergence of a global middle class. To illustrate this vertiginous growth, an Asian Development Bank (ADB) study of the emergence of the middle class in developing countries of Asia (ADB 2010)—one of a group of reports on the subject issued by multilateral and intergovernmental organizations around the same time (Ferreira et al. [World Bank] 2013; Franco et al. [UN ECLAC] 2010; Mubila et al. [AfDB] 2011; OECD 2010)—finds that the middle class of developing Asia grew from approximately 835 million people in 1990 to nearly 2.8 billion people in 2008, dwarfing the increase in all other regions of the world combined over the same time period and using

a consistent definition. The ADB defines the middle class for the purpose of this analysis as those with incomes between US$ 2 and US$ 20 a day (ADB 2010, Table 2.1)—more on that later in this chapter.

This Handbook chapter surveys the emergence of middle classes in the developing world, as well as a variety of fundamentally economic and political-economy perspectives on how to interpret and understand that emergence. Five fundamental points are made:

1. As with demographic and economic growth generally, the growth of the global middle class is overwhelmingly an Asian phenomenon.
2. The chapter briefly surveys economic definitions (based on absolute- and relative-income levels, occupations, and consumption patterns). While this multiplicity of definitions can be confusing, different definitions serve to answer different questions.
3. Regardless of the definition used, the emerging middle classes of low- and middle-income countries are marked by their precarious status: that is, many such households are at an elevated risk of descending into poverty.
4. Middle-class growth derives from two effects: economic growth generally, which would lift some households out of poverty even if it left the income distribution unchanged, and pro-poor growth. The relative contribution of each effect depends on the definition of the middle class used and the time and place being analysed, but it is likely that the first has had a larger impact than the second.
5. The economic consequences of the middle class stem from at least two effects. On the one hand, the middle class can be a motor for growth via its consumption levels and patterns and, arguably, due to higher rates of entrepreneurship and innovation. Second, a growing middle class promotes economic growth because more equal economies tend to grow faster; this chapter surveys some of the political-economy mechanisms adduced to explain the empirical relationship between equality and growth.

Who Is Middle Class? Economic Measurements

Why did the ADB define the middle class as those with daily incomes between US$ 2 and US$ 20? Just who is middle class, anyway? And how does the answer to that question vary whether one's focus is on developing economies or on rich countries, whether one asks the question today, in the eighteenth century, or 50 years from now?

This chapter defines the middle class in terms of economic characteristics such as household income, as well as occupational status or consumption patterns. By establishing concrete criteria, households in a given country can be assigned to the middle class (or not) for the purposes of measurement and in order to track changes in the middle class (including, notably, its size) over time. This section reviews three classes of middle-class definitions: *absolute-income* measures, *relative-income* measures, and *occupationally based* measures.

Some authors use *absolute-income* measures to delimit the middle class: they define lower and upper per capita income levels to comprise the middle class, which can be applied to all countries under analysis, regardless of average or median income levels in those countries. Abhijit Banerjee and Esther Duflo (2008) look at households with per capita daily consumption expenditures between US$ 2 and US$ 10 and find that their heads tend to have steady work, and they have fewer and healthier children than poorer households. Martin Ravallion (2009), similarly, defines the developing-country middle class as those households that would be poor by rich-country standards but are not poor in the context of their own country; he finds a net increase of 1.2 billion people in this middle class between 1990 and 2002, four-fifths of which occurred in developing Asia. Moreover, most of the new members of the developing world's middle class are quite close to the lower US$ 2-a-day cut-off, and Ravallion, therefore, emphasizes the vulnerability of this group to falling (back) into poverty.[1] The Banerjee-Duflo/Ravallion measures are intended to be applied only in developing countries. Homi Kharas (2010, 2017), meanwhile, proposes a middle-class definition that applies to *all* countries, rich and poor alike: he sets the lower and upper bounds at US$ 10 and US$ 100 income per person per day to delimit a middle class that can be found in every country.

Absolute-income definitions of the middle class facilitate comparisons across countries and over time in a reasonably transparent way. Nevertheless, it is difficult to develop a definition that is both applicable to all countries, rich and poor alike, and more often than not includes people in the middle of the income distribution. Kharas's global middle class is universally applicable, for example, but in most developing countries, the definition draws in a tiny minority of households at the upper end—sometimes the extreme upper end—of the income distribution. Ravallion's developing-country middle

[1] Asian Development Bank (ADB) (2010) develops similar measures for Asian economies, while Ferreira et al. (2013) extends an absolute-income approach to Latin American economies.

class, on the other hand, embraces people in the middle of the income distribution in lower-income countries, but there would be, by construction, zero middle-class households according to this definition in rich countries.

Other authors have opted for *relative-income* definitions of the middle class. Thus, some Latin American studies consider households with per capita income between 50 per cent and 150 per cent of median per capita income (OECD 2010; Castellani et al. 2015; Daude et al. 2015). The middle class (and indeed, the poor and the rich) as a share of total population will vary from country to country depending upon the shape of the income distribution. Easterly (2001), cited earlier, defines the middle class as those households in the second, third, and fourth quintiles of the income distribution. In this conception, the middle class will always constitute exactly 60 per cent of the total population, but Easterly analyses the share of national income earned by this middle 60 per cent (averaged over the years 1990–1996). For the 103 countries in his data set, the middle class thus defined earned on average 47 per cent of total income; the measure ranges from a low of 30 per cent to a high of 58 per cent. These relative-income measures can be meaningfully applied to all countries, and they always include people in the middle of the income distribution.

Income is not the only economic variable one might use to craft a definition of the middle class. Perhaps the most important economic marker of middle-class status, aside from income itself, is *occupational status*, one's job. A certain stereotypical conception of middle-class work holds that such workers have stable, well-paid (if humdrum) office jobs. Do working people in the developing world's middle class have good or bad occupations? Different studies (and different definitions of the middle class) yield different answers to this question. Banerjee and Duflo (2008) found that among the commonalities of their US$ 2–$ 10 middle class in 13 developing countries was steady work.

'Steady work' need not correspond to rich-country norms of 'good jobs'. Daude et al. (2015), for example, finds that a substantial share of Latin American middle-income workers (using a relative-income measure) have informal sector jobs and are therefore less secure than their formal-sector counterparts. Using different measures, the ADB similarly finds that own-account workers (a rough and imperfect proxy for informal sector employment) are only slightly less prevalent among middle-class workers in India, China, and the Philippines than among the working poor.

A study of the Latin American middle class carried out by the UN Economic Commission for Latin America and the Caribbean (ECLAC, reported in Franco et al. 2010, 2011) combines income and occupational characteristics

into its definition. In brief, they define the middle class as all people in the middle-income stratum plus people in the low-income stratum but with 'good' jobs, that is, non-manual occupations, whether as public- or private-sector employees or as own-account workers. The share of these low-income but middle-level job holders varies from 12 per cent of the population in Costa Rica and Panama in 2006 to as much as 27 per cent of the population in Brazil (León et al. 2010, Table 14).

Despite the potential for confusion, these different measures have been developed to answer different questions. Accordingly, it is to the research questions that we turn to in the following section.

The Middle Class as Motor of Growth

Can the global middle class serve as a motor for economic growth? Affirmative responses to this question lie behind much of the enthusiasm for the middle class in the business media, focused on this group's buying behaviour. Quantitative answers to this question can be grouped into macro, meso, and micro levels; these are complemented by qualitative analyses.

Absolute-income measures of the middle class scaled to rich-country consumption levels, like that used by Kharas (2010, 2017) and Cárdenas et al. (2015), are arguably best suited to analysing this potential, at least in a macroeconomic sense.

In the first instance, this macro perspective on the middle class is concerned with the extent to which this group can be a driver for global, and not only domestic, growth. In this case, it is not the proportion of the population with daily incomes between US$ 10 and US$ 100 that matters, it is the absolute number of such consumers and their associated purchasing power. Countries with large numbers of people in that range—China, the United States, Brazil, Mexico, and India—are potentially motors for global growth. Kharas's (2010, 2017) projections forecast a future in which this group will be dominated in size and spending power by the emerging middle classes of developing Asia.

Even if the capacity of an individual country's middle classes to fuel global growth is limited, however, the growing share of the population with daily incomes over US$ 10 could serve as a lucrative market for new economic activities. From this meso perspective, even the economies of small countries like Costa Rica, Tunisia, or Uruguay, with middle classes under the Kharas definition in excess of half the population, stand to benefit.

Micro-level analyses focus on patterns of consumption. Chinganya et al. (2015) and Mubila et al. (2011) assess consumption patterns of Africa's

middle classes; ADB (2010, Table 5.2) surveys Asian countries. These African and Asian analyses likewise emphasize the importance of Engel's law as a driver for domestic demand. As household incomes rise, a smaller share of expenditure is devoted to food, increasing the demand for consumer durables and, with it, the impetus for domestic manufacturing industries. In this connection, Dadush and Ali's (2012) index of the global middle class is based on car ownership: roughly speaking, you're middle class if you have a car. Demand for cars could fuel domestic auto production in countries with a large enough market.

The rise of this new class of consumers provides opportunities for businesses to profit from innovative new strategies. Perhaps the most striking examples can be found among Chinese corporations that have mushroomed serving middle-class consumers there, including Alibaba, Baidu, Tencent, and Xiaomi. But the phenomenon is not limited to China. Casanova and Brust Renck (2015) explore the range of strategies deployed by Latin American firms like Grupo Monge (a Costa Rican retailer of electronic consumer durable goods) or Natura (a Brazilian cosmetics company). A feature common to several of Casanova and Brust Renck's company stories is the expansion from one Latin American country to another. They, furthermore, show that the effect of middle-class growth on company strategies can be indirect, as in the increased demand for buses from public-transport companies, much of it met by Brazilian Marcopolo.[2]

Innovation is not limited to producers, as evidence from African case studies illustrates. Toulabor (2012) analyses Togo's 'Nana Benz'—a multigenerational clique of prosperous cloth merchants—as an example of entrepreneurial middle-class dynamism in distribution. In a similar but more incipient and precarious way, the local merchant middle-class households surveyed in Niamey, Niger by Nallet (2012) demonstrate that a key dimension of entrepreneurship in low-income economies is resourcefulness and adaptability. Escusa (2012) illustrates how the lower middle class of Soweto has adapted institutions of economic solidarity (e.g. saving circles) to the exigencies of middle-class consumption patterns in Johannesburg, South Africa. More generally, Casanova et al. (2016) suggest that key middle-class virtues such as entrepreneurship or innovation must be contextualized in low-income economies to give greater weight to resourcefulness and adaptability rather than research and development (as might be the case in a high-income economy).

[2] For a more general treatment of the rise of multinational firms based in emerging economies, see Nölke (2014).

The potential for the middle classes to drive growth is hampered by their vulnerability. Measures of the middle class that include households vulnerable to falling (back) into poverty paint a picture of a group of consumers ill-equipped to sustain meaningful growth of consumption. (Absolute-income measures of the middle class bounded below by the US$ 10 per person per day income line by design exclude the vulnerable; Ravallion's developing-world middle-class measure focuses *solely* on the vulnerable.) Relative-income measures look at the households in the middle of the income distribution, allowing us to ask: how many of them are vulnerable? Informal employment and lack of coverage by social protection schemes among people in these segments of the population suggest that many are.

Inequality, Middle Classes, and Economic Performance

The effects of the middle class on economic performance in the classical Aristotelian-Confucian conception have to do with the effects of inequality. The twentieth-century consensus regarding economic inequality, arguably, was encapsulated in the so-called Kuznets 'inverted U curve' hypothesis, a compelling political-economy mechanism in which inequality is a consequence of economic growth and development (Kuznets 1955; Lewis 1954; Ranis and Fei 1961). In this view, pre-industrial agrarian societies are marked by high levels of income and wealth inequality. As industrialization occurs, low-productivity farm workers migrate to factories in cities, and a coterie of capitalists earn extraordinary profits, increasing inequality economy-wide. At some point, the flow of rural workers to industry is sufficiently great that productivity in agriculture begins to rise, putting upward pressure on rural and urban wages and reducing inequality. Mature capitalist economies return to moderate or low inequality thereafter—not a bad approximation for the post-war rich economies that development economists were studying in the 1950s.

Economist Thomas Piketty's *Le capital au XXIe siècle* (2013) marks a turning point in the economic study of wealth and income inequality. Piketty argues that if left unchecked, income and wealth inequality will tend to increase, not decline over time; this is contrary to the Kuznets hypothesis. This follows from the tendency of the rate of return to capital (r) to exceed the economic growth rate (g); those whose incomes derive from the former (owners of capital and inherited fortunes) will see their incomes rise more quickly

than those whose incomes tend to track the rate of economic growth (labourers). This mechanism has been widely summarized as $r > g$.

A corollary of Piketty's findings of particular importance to the study of political economy is that where public policy is different, so too is the level of inequality. Thus, the rich Anglo-American economies—Australia, Canada, the United Kingdom, the United States—have a U-shaped (not inverted) path of inequality over the twentieth century: falling in the wake of the global Great Depression, stable in the post-war period, and rising again to Gilded Age levels in the decades since 1980. But other rich economies—France, Germany, Japan—have L-shaped time paths of inequality, falling with their Anglo-American counterparts during the 1930s but remaining lower thereafter. The difference is due to political-economy differences between the two groups of countries: redistributionist public finances and different norms of corporate governance.

The empirically informed Piketty revision of inequality economics converges with the proliferation of a rich neoclassical vein of political-economy models of inequality as a determinant of growth and development. In particular, these studies seek to explain an empirical finding that emerged with the advent of more robust cross-country data sets: more unequal economies (which have smaller middle classes, using several of the definitions introduced earlier), all other things remaining equal, tend to experience slower economic growth. There are arguably three variants of these models. All three work through investment as a driver of economic growth: higher inequality (and a smaller middle class) is associated in all of these models with depressed investment, which reduces economic growth in turn (Bénabou 1996).

The first variant is based on *capital-market imperfections* (Banerjee and Newman 1993; Galor and Zeira 1993). Suppose that good investment ideas occur randomly throughout the population. However, because of the risk of default, banks are only willing to lend to potential entrepreneurs who have sufficient wealth to post as collateral (this is the capital-market imperfection). Then, not all good business projects will receive funding where wealth is unequally distributed: some poor entrepreneurs will not be able to make investments. Another economy with the same average level of wealth, but more equitably distributed with a larger middle class, will have higher rates of investment and economic growth.

A second variant of this literature argues that more unequal economies are marked by higher levels of *social conflict*: this could take the form of dispersed violence like crime and delinquency, or more generalized violence like civil war (Alesina and Perotti 1996; Benhabib and Rustichini 1996; Easterly 2001). Consider a simple example of a potential investor considering building five

factories in an unequal society like this. She might decide it is smarter to build only four factories and divert the resources that might have paid for a fifth factory to building a fence around the other four or hiring security guards. In the presence of social conflict, resources are diverted away from productive investment, lowering economic growth in the process.

A third variant of this research is based on the notion of *redistributive public finance* (Alesina and Rodrik 1994; Persson and Tabellini 1994). This mechanism relies on democratic governance. Where there is a smaller middle class, there will be greater electoral support for candidates whose platform includes more redistributive public finance: higher income taxes to finance higher spending on schools and clinics and other publicly provided goods and services. This, in turn, reduces investment through a time-honoured neoclassical argument: higher income tax reduces an investor's incentive to invest since she will pocket a smaller share of the investment returns. The empirical magnitude of this disincentive to invest, however, was found to be indistinguishable from zero in a recent International Monetary Fund (IMF) study (Ostry et al. 2014).

This latter mechanism introduces the important topic of middle-class politics. What kind of electoral platforms do middle-class voters support (e.g. high taxes and social spending)? Are middle-class citizens more or less likely to engage in activism and protest? And in support of what kind of social movements (cf. Daude et al. 2013)? Stepping back from the political preferences of the middle class, a more basic question has to do with the size of the middle class as a voting bloc. The size of the middle class varies considerably according to the definition employed; nevertheless, most generate groups that are sizeable fractions—often a majority—of the population. Even using the smaller measures, the middle classes so defined play a powerful role in a coalition of various constituencies: arguably, the vulnerable, thus defined, have provided critical electoral support to the variety of left-leaning governments in Latin America (including the Brazilian PT).

Meanwhile, Maupeu's (2012) subtle analysis argues that the Kenyan middle class (not precisely defined) seeks not social services from the state but rather a legal and constitutional environment better equipped to manage social risks (which includes demands for health insurance). This 'constitutionalism from below' acquired a startling relevance in the electoral-constitutional crisis the country successfully weathered in 2017.

Whatever the mechanism, to the extent that growing middle classes signal reductions in inequality, then the middle class is both a cause and consequence of economic growth. Relative-income measures of the middle class are consistent with this interpretation of the middle class. Absolute-income

measures like Kharas's might not be: thus, the global middle class (US$ 10–$ 100 a day) could grow in China or Brazil (cf. Neri 2011, 2015), fuelling growth via demand for durables, even as its increase retards growth via the political-economy mechanisms summarized in this section. Which effect predominates is an empirical question to be determined by statistical and other analysis.

Focusing on the economic causes and consequences of middle-class growth should not distract our attention from the effects of the phenomenon that extend beyond the narrowly economic. These include environmental impacts of changes in consumption patterns (at the heart of much of the disputes regarding global efforts to slow the progress of climate change). Extra-economic effects also include the transition in low- and middle-income economies to different mortality patterns, marked less by epidemics and more by non-communicable diseases, including cancer and diabetes (cf. www.ncdalliance.org; see Eckhardt and Lee (Chap. 41), this volume).

Conclusion

Recent analyses of the emergence of a global middle class—particularly of middle classes in the low- and middle-income economies of the developing world—reflect the ancient optimism of Aristotle and the Confucian concept of *xiaokang* to the effect that a growing middle sector will portend peace and prosperity for the larger population as a whole. Economic research on the phenomenon has devoted considerable, and sometimes divergent, energy to the question of how to define the new middle classes. This chapter has argued that these potentially confusing definitions seek to address different questions. Nevertheless, economic precariousness is common to several of these definitions. For definitions whose lower-income bound is close, or coterminous, with the poverty line, the share of middle-class households at risk of descending (back) into poverty is disconcertingly high. For definitions that match consumption to rich-country middle-class levels (e.g. Kharas's notion of the 'global middle class'), meanwhile, the aggregate size of the middle class so defined is likely too small to drive economic growth in all but the largest developing countries.

Analyses of the consequences of the emergence of this vulnerable middle class are often inspired precisely by these groups' capacity to be a 'motor for growth', either through their overall spending power or by dint of their demand for particular goods, such as consumer durables, that will spur structural transformation of the economies where they live. The vulnerability of

middle classes, however measured, casts a cloud over middle-class optimism. Political-economy perspectives of inequality, however, point to a complementary case for middle-class optimism. To the extent that middle-class emergence is matched by reductions in economic inequality, these recent studies argue that investment and growth will benefit. The reasons have largely to do with reduced economic, social, and political conflict and are ironically consistent with the classical Aristotelian-Confucian view.

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12

International Migrations, Diasporas, and Remittances

James Busumtwi-Sam

Introduction

International migrations, diasporas, and remittances are hardly new. What is new is the rapid increase in the volume, frequency, density, velocity, and diversity of the global and transnational connections and relationships they spawn, and the growing recognition that these phenomena represent an important source of reordering in the contemporary international political economy (IPE). However, exactly what this reordering entails and its actual/potential impacts on IPE are not well understood. In part, this reflects difficulties in obtaining accurate data and the fact that scholarly IPE research has not paid much attention to migration and diaspora-related issues. It also reflects the shifts back and forth in public policy and public discourse on migration, from pessimistic views that periodically associate patterns of international migration with 'crises' to more optimistic views that posit a 'win-win-win' situation benefiting migrants and diasporas, sending, and receiving countries.

Thus, the optimism towards migration post WWII was followed by pessimism beginning in the late 1970s and intensifying in the 1990s, a period during which the publication of influential academic and media accounts, including Kaplan (1994) and Brimelow (1995), helped fuel apocalyptic narratives of a Global North besieged by migration from the Global South. The new millennium ushered in a period of optimism framed within the context

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of the 'migration and development nexus' in which the United Nations (UN), the major multilateral financial institutions, the major bilateral foreign aid donors, as well as regional organizations and national governments stressed the development benefits of migration, and especially of remittances (de Haas 2012).

Currently, views on migration and of its relationship to development are unsettled. The optimistic 'migration and development' discourse remains influential in liberal internationalist policy circles but is undercut by growing pessimism fuelled by conservative populist narratives of 'migration crises' in Europe, the USA, and elsewhere. The scholarly literature is also divided on the migration-development relationship, a divide partly rooted in intellectual/ideological differences with some of the strongest optimists situated within the neoclassical/neoliberal camp, and pessimists within the dependency, 'critical', and 'postcolonial' camps (Skeldon 2008; de Haas 2012). This latter disagreement has grown apace with mounting evidence of the highly context-dependent migration-development relationship and the mixed empirical record of the development impacts of remittances.

This chapter examines the ways in which international migrations and associated phenomena of diasporas and remittances represent significant but poorly understood sources of reordering in contemporary IPE. It shows that the relationship between the movement, dispersion, and settlement of people across national boundaries, their social formations, and their networks of value transfer on the one hand, and development, on the other hand, is far more complex than is often portrayed (see also Clarkson (Chap. 36), this volume). Migration is constitutive of the life experiences of a growing proportion of the world's population. It produces 'winners' and 'losers'. And international migration patterns, diaspora social formations, and remittance transfers are diverse in their sources, channels, social composition, and social effects, which in relation to the IPE of development, pose troubling unanswered questions and unaddressed policy challenges.

I develop the argument in three sections. The first examines changing patterns of international migrations, the second diaspora social formations, and the third remittances. Each section begins with a brief overview followed by a discussion of some key issues of debate.

International Migrations[1]

The volume of international migrants, which began to increase in the 1960s, accelerated dramatically in the 1990s. The number of international migrants worldwide grew steadily after 2000 and is estimated to have reached 258 million in 2017, up from 220 million in 2010 and 173 million in 2000 (DESA 2017). The number of international migrants as a proportion of the total world population increased from 2.8% in 2000 to 3.4% in 2017. International migration made an important contribution to population growth in many parts of the world and even reversed population decline in some countries. Between 2000 and 2015, for example, migration contributed 42% of the population growth in North America, and Europe's total population would have declined during the period 2000–2015 in the absence of migration (DESA 2017; IOM 2015). New groups of migrants have emerged including women who accounted for 48% of international migrants in 2015, although the share varies across regions—for example, Asia 42%, Europe 52.4%, and Northern America 51.2% (IOM 2017).

A sizable portion of international migration flowed from the Global South to North. Global South-South flows, however, constitute a larger portion of international migration flows than Global South-North flows but receive much less attention. The estimated 90.2 million people who migrated across Global South-South corridors in 2016 exceeded the 85.3 million for Global South-North migration that same year (IOM 2017). High-income countries (in both the Global North and South) hosted 64% of the total number of international migrants worldwide in 2017. The actual number of international migrants, however, is likely to be significantly higher (anywhere from 30–50% higher) especially in Global South-South corridors because a sizable portion of these flows is unrecorded.

The number of recorded international migrants in 2017 included 26 million refugees or asylum seekers, or about 10% of the total (DESA 2017). Although a majority of the world's international migrants live in high-income countries, low- and middle-income countries hosted nearly 22 million (84%) of all refugees and asylum seekers in 2017. Between 2015 and 2016, the number of refugees in the EU increased by 273,000 to 1.6 million. During the same period, however, refugee numbers worldwide increased by 1.4 million, to 16.5 million and most were hosted by Global South countries, par-

[1] The term 'international migrations' excludes migration within the borders of states and internal displacement.

ticularly those proximate to the refugees' countries of origin (World Bank 2017). Turkey and Pakistan were the main refugee-hosting countries globally in absolute terms, with, respectively, 2.9 million and 1.4 million refugees registered by the end of 2016, followed by Lebanon (1 million), Iran (979,400), Uganda (940,800), and Ethiopia (791,600) (IOM 2017; UNHCR 2017).

The absence of reliable data and definitional inconsistencies impede a fuller understanding of the patterns and sources of international migrations, even for recorded flows. The figures on international migration flows are estimates that come with many caveats regarding their accuracy.[2] The 1998 *UN Recommendations on Statistics of International Migration* define 'international migrants' as people who change their country of 'usual residence' for a period of at least three months (DESA 1998). Others define migrants as people residing outside their country of birth for one year. Yet others stipulate that to be migrants people must be living outside their country of birth but place no time limits on residence (IOM 2017; DESA 2017). The lack of uniformity and consistency across countries in recording and reporting the movement of people in and out of their borders further complicates the picture. This problem is compounded by differences in the laws and regulations across countries that determine when a person ceases to be a 'migrant' or 'visitor' and becomes a 'resident', and differences in the criteria for the acquisition of nationality and permanent residence.

Questionable assumptions and classifications also undermine the accuracy of migration estimates, especially the use of dichotomous categories—for example, 'regular' versus 'irregular', 'voluntary' versus 'involuntary'; 'documented' versus 'undocumented' and so on (Homi 2015). Contemporary migration patterns do not fit these rather neat dichotomies, the second category in each of which is not only stigmatized and devalued but also racialized, criminalized, and securitized. This creates particular challenges for international efforts to manage migrations. At least 50 million people worldwide were estimated to be 'irregular' or 'undocumented' migrants in 2016, many of whom relied on the services of 'smugglers' and 'traffickers' (IOM 2017). Over 40 million people were estimated to be victims of modern slavery, human trafficking, and other forms of 'unfree labour' globally in 2016, with two out of every three victims being women and children subjected to sexual exploitation, forced labour, and domestic servitude (IOM 2017).

[2] The International Organization for Migration (IOM), UN Department of Economic and Social Affairs (DESA), International Labour Organization (ILO), UN High Commissioner for Refugees (UNHCR), and World Bank are the main sources of official data on international migration.

Sources of International Migrations

The easing of imperial restrictions on the movement of colonial subjects that occurred with decolonization in Asia and Africa contributed to the increase in migration in the 1960s and 1970s. The liberalization of exit that accompanied communism's collapse in Eastern Europe also contributed to an increase in international migration in the 1990s (Nyberg-Sørensen et al. 2002). Beyond these historical 'waves', the reasons for international migrations vary considerably but often reflect a combination of 'push' factors in sending countries and 'pull' factors in receiving countries.

The conventional wisdom identifies push factors in the gap between material resource availability and labour market growth, and population growth in sending countries, which creates strong pressures for emigration. Political factors including authoritarian and repressive governance and human rights abuses in sending countries are also cited as important push factors (Zolberg and Benda 2001). Some studies suggest, however, that the improvements in material conditions that accompany development may actually stimulate migration in the short term by raising people's expectations and by enhancing the resources needed to migrate (Martin and Taylor 2001). Other studies suggest that rather than poverty per se, inequality of development opportunities seems to be one of the more important sources of migration (de Haas, 2005). The link between migration and poverty/lack of development, however, is highly dependent on the specific context in which migration occurs.

Pull factors include demographic changes (ageing populations and low population growth rates) in Global North receiving countries, which contributed to the increase in Global South-North migration (IOM 2015). Class, gender, and race strongly affected this migration pattern in which Global North receiving states attracted wealthy and skilled professionals from Global South sending countries for long-term immigration and settlement while limiting lower-skilled labour migrants to shorter terms as 'seasonal' or 'guest' workers, and for many women, as 'domestic' or 'care' workers (Bose 2008). Economic restructuring towards the services sector in the Global North thus strongly influenced patterns of women's migration (Anthias and Lazardis 2000). The literature also illuminates an interesting dynamic linking local conditions in sending countries to wider global processes that introduce new consumption aspirations and new sources of information about living conditions/lifestyles in receiving countries, thereby reinforcing incentives for emigration among segments of a population (Nyberg-Sørensen et al. 2002; Portes 2001).

Research on 'irregular migration' and human trafficking seeks to understand peoples' vulnerability in contexts of inequality. They explore the linkages between poverty, lack of development, and human trafficking and the broader political, institutional, and sociocultural environments within countries that embed them (Danailova-Trainor and Laczco 2010). Gender discrimination and violence, forced marriage, and bonded labour are among many practices that increase vulnerability to trafficking (UNDP 2007). The bulk of the research, however, covers Europe and Asia, while the Americas, Africa, and the Middle East have received comparatively less coverage. Furthermore, most studies focus on conditions within sending countries to the comparative neglect of conditions in receiving countries that create the demand for trafficking.

Governing International Migrations

Initiatives to manage international migrations began with the 1951 *Convention Relating to the Protection of Refugees* and its 1967 Protocol and the 1990 *Convention on the Protection of the Rights of all Migrant Workers and Members of their Families*. Two conventions were added in 2000 to address human trafficking including the *Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children* and the *Protocol against the Smuggling of Migrants by Land, Sea and Air.* These five conventions and protocols together with International Labour Organization (ILO) standards on migrant rights constitute the international normative and legal framework or regime for international migration (DESA 2017). However, if the number of ratifications is indicative of the 'compliance pull' of these instruments, then the UN-sponsored international migration regime has a long way to go. As of September 2017, only 37 UN members (out of 193) had ratified all five instruments on international migration, and 13 members had failed to ratify even one (DESA 2017).

In the effort to strengthen the governance of international migrations, countries are seeking to supplement the 'hard law' instruments listed earlier with 'soft law'. The UN sponsored a 'High-level Dialogue on International Migration and Development' in 2006, which was the culmination of a series of regional and international efforts to increase cooperation in addressing migration and development. In 2015, the Sustainable Development Goals (SDGs) of the UN's Agenda 2030, included two migration-related targets: to facilitate orderly, safe, regular, and responsible migration (Goal 10.7) and to reduce remittance costs to less than 3% by 2030 and eliminate corridors

higher than 5% (Goal 10.c). In September 2016, the General Assembly adopted the 'New York Declaration for Refugees and Migrants' that outlined commitments to protect migrant rights and called for the development in 2018 of two *Global Compacts*—one to facilitate 'safe, orderly and regular' migration and the other to share the burden of hosting refugees more equitably (DESA 2017). However, the growing phenomenon of 'environmental refugees'—migration induced by environmental disruption including climate change—has not received the attention it deserves (Biermann and Boas 2010).

Diasporas

Contemporary diasporas reflect changing patterns of international migration in the globalized world economy and like the migrations on which it is based the diaspora phenomenon is not well understood. The word 'diaspora', which literally means a dispersion of peoples, historically was used as a proper noun (capital 'D') and associated with large-scale forced dispersion of peoples. The exile of Jews, the formation of the 'African Diaspora' through the Trans-Atlantic Slave Trade, and the dispersion of Armenians under the Ottomans provided the archetypical examples (Cohen 1997; Brubaker 2005). Over time, as the diaspora phenomenon itself changed, the concept became a common noun (small 'd') and was broadened to include other patterns of migrations and dispersions (Mohan and Zack-Williams 2002; Brubaker 2005).

The diaspora term is now applied to virtually every identifiable cluster of migrants or 'minority' populations dispersed in space and time (Brubaker 2005; Wahlbeck 2002; Vertovec and Cohen 1999). Labour migration across the world today, including, for example, from South Asia to the Persian Gulf, Latin America to the USA, and Eastern to Western Europe, which are among the more significant population flows in recent history, is seen as a major factor in the formation of contemporary diasporas (Castles and Miller 2003). The literature also identifies so-called trading diasporas such as the Hausa in West Africa (Newland and Patrick 2004). Even 'minorities' who may not themselves have migrated but have had national borders 'migrate' around them are labelled diaspora as in the case of Russians in former Soviet republics in Eastern Europe (Kolstoe 1995). The extension of the diaspora concept in these ways does acknowledge the changing patterns of contemporary population dispersions. It also acknowledges how communication and transportation advancements have aided diaspora formation by enhancing the ability of international migrants to stay connected with their places of 'origin'.

However, the tendency to conflate 'migrants' and 'diasporas', and to treat the latter as homogenous pre-constituted bounded groups with singular, fixed, and static identities defined primarily in national or ethnocultural terms impedes a fuller understanding (Davies 2007; Berns-McGown 2008; Anthias 2008). Although diasporas are formed through historical and contemporary migrations, it is necessary to distinguish them from migrant clusters more broadly (Brubaker 2005; Bilge and Denis 2010). While 'migration' connotes movement in space and time, 'diaspora' connotes not only such movement but more importantly a consciousness about, and a connection between, individuals/groups in two or more locations/countries based on a meaningful, enduring, and embedded social relationship. Being in a diaspora, therefore, entails an ethic of commitment and obligation that extends beyond the self and immediate family/friends to a wider community, real and imagined, which links 'host' and 'home' countries/locations (Walsh 2003). Diasporic communities, forged by complex cognitive and affective linkages and attachments including empathy, solidarity, patriotism, guilt, pride, nostalgia, and so on, are rooted in historical and contemporary social processes conditioned by globalization. Migrant clusters, by contrast, generally do not possess a sense of community linking 'host' and 'home' beyond aiding (e.g. through remittances) family and associates at 'home' (Brubaker 2005; Davies 2007).

Furthermore, rather than being pre-constituted and fixed, diasporic identities are constituted, reconstituted, and reproduced socially and historically (Berns-McGown 2008). Diasporic groups may lack commonality and experience divided identities, and contradictory kinds of diasporic consciousness may emerge in different segments of a migrant population in different 'host' locations, and even in the same 'host' community (Walsh 2003). Some diasporic groups could be highly assimilated and retain only vestiges of 'difference' in the form of a collective identity strategically mobilized in support of a collective cause (Werbner 2004). Within and across the various locations they occupy, diasporic identities are constantly negotiated and renegotiated, entailing a balancing of notions of belonging, inclusion, and integration, on the one hand, with exclusion, difference and 'otherness', on the other hand (Anthias 2008, Tettey 2007). And rather than describe diaspora members as occupying more than one location ('host' and 'home'), it may be more accurate to say they occupy spaces that are neither wholly 'here' nor 'there', and for some, 'host' and 'home' are interchangeable (Berns-McGown 2008).

The literature also views diasporas as a manifestation of transnationalism—the multiple ties and interactions linking people and institutions across national boundaries (Vertovec and Cohen 1997; Davies 2007). There is, however, a tendency to employ a national social imaginary that reifies the 'nation'

by using it implicitly or explicitly as the point of reference and as the sole basis upon which diasporas are constructed. This assumes that national boundaries alone form the basis of diasporic groupings—that is, the nation from which they came and the nation where they have settled (Sheffer 2003). Contemporary diasporas, however, disrupt this tidy view of nation and belonging. A range of diasporic networks and practices across borders are subnational and more localized. National boundaries, although important, are not the only significant boundaries transgressed by diasporas, and diasporic transnationalism is not monolithic but influenced by class, gender, race, sexuality, and other differences in addition to nationality (Bose 2008). Thus, rather than think of contemporary diasporas as bounded entities defined by their nationality, it is more useful to think of them as idioms embodying a 'category of practice' used to make claims, to articulate projects, support causes, and mobilize resources (Brubaker 2005).

Diasporas and Development

Within the context of the 'migration and development' discourse, the major Global North bilateral aid donors, multilateral development agencies, and many Global South governments appear to have embraced the idea that diasporas can and do play valuable roles in development. A range of strategies, policies, and instruments have been devised by governments in 'home' countries to nurture diasporic attachments and patriotic sentiments. These include officially recognizing diasporas and encouraging short-term placements/exchanges, offering dual nationality to first-generation and subsequent generation diaspora members, allowing eligible diaspora members to vote overseas in national elections, allotting a certain number of positions for elected diaspora representatives in national or regional legislatures, and issuing 'diaspora bonds'. These practices, however, vary considerably across countries and regions. China, India, Israel, Mexico, and the Philippines are frequently cited as countries that have successfully 'harnessed' their diasporas (Newland and Patrick 2004).

The scholarly literature on diaspora contributions to development can be placed roughly into four groups. Studies have explored whether and how the knowledge and skills of diaspora members help transform the 'brain drain' of emigration into 'brain gain' and 'brain circulation' (Kapur and McHale 2005). Research into 'social remittances' explores how the circulation and exchange of norms, values, and practices by diasporas and migrants more broadly effect change in social attitudes and structures (e.g. gender roles, family structures,

etc.) (Levitt and Lamba-Nieves 2011). Studies also examine the influence of diasporas on a range of political issues affecting development (Kapur 2014; Pfutze 2012). The bulk of the literature, however, focuses on the financial contributions of diasporas and migrants, where the impact of remittances on development has been a source of much debate as shown in the section 'Remittances'.

Although research has shown that diasporas may have 'good' developmental effects (e.g. contributing to improved health and living conditions) and 'bad' effects (e.g. contributing to armed conflict and instability), the official 'migration and development' discourse has tended to romanticize diasporas as a spontaneous 'bottom-up' source of positive development outcomes. In the effort to 'engage' them, this discourse represents diasporas as 'commodities' and 'resources' to be 'harnessed' instrumentally for development. Critics charge that conventional development has only moved part of the way towards accommodating the novel forms of diasporic agency (Mercer et al. 2009). Much of the emphasis, instead, has been on migrant and diaspora remittances, which in the context of declining/stagnating foreign aid budgets, critics view as a cynical attempt by the major Global North donors to transfer the burden of financing development (de Haas 2012).

Remittances

A remittance is the transfer of value, in a mutually agreed manner, between a sender and recipient in separate countries. They have been around for as long as people have migrated. What is new are the increased amounts transferred, the increased speed of transfers, the global scope of transfers, and the methods of transfer that increasingly employ technological innovations in mobile and electronic financial services. The period 1990–2016 saw significant growth in remittance transfers globally. In 2016, worldwide remittance flows were estimated to have exceeded US$ 500 billion, with Global South states receiving about US$ 400 billion of that amount. This was three times greater than Official Development Assistance (ODA) and second only to foreign direct investment (FDI) in terms of global capital flows.

Noteworthy also has been the volatility of FDI and portfolio flows (compared to remittances) which have experienced periods of rapid increase punctuated by periods of steep decline reflecting periodic failures in private capital markets (World Bank 2016, 2017). Such volatility has not accompanied the growth in remittances, which dipped only slightly in the immediate aftermath of the 2008 financial crisis by around 5% in 2009 and recovered by

2010. This decline was modest compared to declines of over 40% for portfolio and FDI flows between 2008 and 2009 from their peak in 2007 (Mohapatra et al. 2010). The slight declines in remittances by 1% in 2015 and 2.4% in 2016 reflected weak economic growth in immigrant-receiving high- and middle-income countries, the weakening of major currencies against the US dollar, and more restrictive immigration policies in many immigrant-receiving Global North states (World Bank 2017). The resilience and relative stability of remittances stems in large part from their social embeddedness (Portes and Sensenbrenner 1993). Because of this, remittance flows unlike other private capital flows, tend to increase during periods of downturn in the economies of the senders' 'home' countries/communities (World Bank 2016).

India (US$ 72.2 billion), China (US$ 63.9 billion), the Philippines (US$ 29.7 billion), Mexico (US$ 25.7 billion), and Nigeria (US$ 20.8 billion) were the top recipients of recorded remittances in 2015 (World Bank 2016). As a share of gross domestic product (GDP), however, smaller countries such as Tajikistan (42%), Eritrea (38%), Cape Verde (34%), Nepal (29%), and Tonga (28%) were the largest recipients (World Bank 2016). The USA was the largest source of remittance outflows with an estimated US$ 56.3 billion in recorded outflows in 2014, followed by Saudi Arabia, Russia, Switzerland, Germany, the United Arab Emirates, and Kuwait (World Bank 2016). The top remittance corridors in 2015 were the USA-Mexico (US$ 25.2 billion) and USA-China (US$ 16.3 billion).

The actual size of remittance flows worldwide, however, is likely to be significantly larger because official estimates do not account for 'irregular' migration, ambiguities in the definition of 'migrant', and the tendency to overlook patterns of Global South-South migration noted earlier. Official estimates also do not account for remittances sent through 'informal' channels. 'Informal' remittance transfer systems, based on networks of trust and solidarity among family, friends, and associates, are attractive to migrants because of their accessibility, anonymity, reliability, and low cost compared to official channels (Maimbo and Passas 2004; de Haas 2012). The distinction between 'formal' and 'informal' remittance transfers, however, is not always clear-cut because a remittance transfer channel may be classified differently depending on the regulations in different countries.

The problem of obtaining accurate estimates of remittance flows also extends to funds transferred through 'formal' channels due to inconsistencies among countries in what to record as a 'remittance'. According to the new method for reporting remittances in countries' annual balance of payments introduced by the IMF in 2010, remittances comprise 'compensation of

employees' and 'personal transfers' including 'capital transfers between households'. People living in a country less than a year are 'migrants', and their entire annual income falls under the 'compensation of employees' category; if they live there for more than a year, they are 'residents' regardless of their actual immigration status, and their transferred funds fall under the 'personal transfers' category (World Bank 2016). The distinctions among these categories, however, and between these categories and other types of private capital flows are arbitrary with a great deal of variation across countries in their application (World Bank 2016).

Development Impacts of Remittances

The empirical record of remittances is very mixed with some studies showing positive development impacts and others negative impacts. The standard view critical of remittances is that they have a consumption bias, provide only a temporary and unreliable external source of income, and do not facilitate longer-term productive investments that generate economic growth (Giuliano and Ruiz-Arranz 2009). Some studies identify a 'Dutch disease' where large remittance inflows appreciate the real exchange rate resulting in a loss of international competitiveness (Acosta et al. 2009). Others identify a 'moral hazard' in which remittances reduce recipients' motivation to work, reduce labour market and civic participation, and create financial dependency (Chami et al. 2008). Yet others contend that in addition to the 'brain drain', because international migrants are rarely among the poorest in their communities, remittances tend to reinforce income inequality in 'home' communities/countries (de Haas 2012).

Studies that reveal positive development impacts reject the notion that remittances have a consumption bias by noting how increased household expenditures may increase production through 'multiplier' and 'stimulus' effects, if goods and services are bought locally (World Bank 2011). Remittance-receiving households, it is suggested, are better able to withstand economic shocks such as sudden increases in food prices, and they contribute to poverty reduction by loosening household borrowing constraints (Pallage and Robes 2003). At the macroeconomic level, studies suggest that remittances have a positive impact on economic growth and reduce macroeconomic volatility by lowering the probability of current account reversals and stabilizing the current account (Adams and Page 2005; Bugamelli and Paterno 2009).

Governance of Remittances

The regulatory framework for remittances internationally focuses on combating money laundering, terrorism financing, and other illicit financial flows and enhancing the efficiency of remittance markets primarily for balance-of-payments purposes. The Financial Action Task Force (FATF 2017) developed a set of recommendations in response to concerns linking terrorism and 'informal' remittance transfers in the aftermath of the September 11, 2001, attacks in the USA. In addition to the FATF recommendations, the Bank for International Settlements (BIS) and the World Bank have elaborated a set of standards and principles to govern remittances (BIS/WB 2007).

Conclusion

This chapter examined international migrations, diasporas, and remittances as significant but poorly understood sources of reordering in contemporary IPE. While welcoming the increased attention paid to these phenomena within the context of the 'migration and development nexus', this chapter cautions against overly optimistic and pessimistic assessments of their ability to produce positive development outcomes. That the literature provides a very mixed picture on the relationship between migrations, diasporas, remittances, and development is hardly surprising. These differences stem in large part from differences in the development dimension being measured (e.g. achieving economic growth, poverty reduction, reducing inequality, improving health; see d'Alessandro and Besada (Chap. 24), this volume); the ways they are measured; and the scale at which they are measured (e.g. families and households, local communities, national). What the different studies may agree on is that migrations, diasporas, and remittances cannot on their own foster the structural and institutional changes in national and international political economies necessary for development to occur.

The evidence also shows that the relationship between international migrations, diasporas, remittances, and development is highly context-dependent. Identifying these contexts (political, economic, social, etc.) is, therefore, a necessary step towards a better understanding of their place and role in contemporary IPE. However, as the chapter showed, improved understanding of these phenomena is hampered by questionable assumptions and classifications of international migrants and the periodic alarms sounded over purported 'migration crises', the conflation of 'migrants' and 'diasporas', and the

treatment of the latter as homogenous bounded groups defined by a national social imaginary, as well as the arbitrary categories used in the calculation of remittances. The chapter also identified some key challenges to more effective governance of international migrations and remittances. Among the most pressing of these challenges are the contradictions inherent in a 'migration and development' policy discourse that purports to see migrants, diasporas, and their remittance transfers positively as 'agents' of development yet at the same time sees them negatively as potential (criminal/terrorist) threats.

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13

Middle Powers in the International Political Economy

Mark Beeson

Introduction

One of the great truisms of international political economy is that the world's most powerful and influential states are also the leading economies of the day. On those rare occasions when we witness a process of 'hegemonic transition', it is because one state is in decline while another is rising. We saw this when the US replaced Great Britain; some think we are witnessing the beginning of something similar as a consequence of China's rise (Chan 2008). Whatever the merits of these arguments one thing seems clear: less powerful states tend to have little capacity to influence such events or the international systems over which hegemonic powers appear to preside. 'Smaller' states tend to be rule takers rather than rulemakers, especially when geopolitical contestation gives them less bargaining power and room for manoeuvre (Mastanduno 2009).

And yet despite the dominance of this narrative about the continuing importance of power politics in shaping economic as well as strategic outcomes, some observers think that the prospects for so-called middle powers have never been better (Behringer 2012; Ikenberry and Mo 2013). The end of the Cold War and the unravelling of American unipolarity in particular, the argument goes, have opened up a political and ideational space in which middle powers can exert a greater influence and develop innovative responses to international problems. It was precisely this context in which the first wave of

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middle power scholarship flourished (Cooper et al. 1993). Indeed, the international economic arena is seen to be especially fertile ground for the innovative actions of middle powers as it is seen to be less constrained by implacable strategic concerns of a sort that still dominate the policy priorities of many states—and not just aspiring or declining hegemons. If such arguments are correct, this would mark an important and potentially valuable development for an international economic order that seems perpetually on the cusp of one crisis or another (Rethel and Sinclair 2012; Streeck 2014).

This chapter explores the potential that middle powers have to make a difference in the governance of an increasingly integrated global economy. After explaining what middle powers are and why they might be significant—in theory, at least—I then consider how they are fulfilling this notional potential. Here, the record is rather less compelling. While some of the leaders of prominent middle powers are plainly delighted to play a more prominent role on the international stage, their actual impact in terms of new economic policies and initiatives remains modest at best. The reality seems to be that the discourse around middle power potential is long on wishful thinking and short on actual achievement. This is an unfortunate outcome at the best of times; it is all too predictable, perhaps, in hard times (Gourevitch 1986). I illustrate some of the challenges facing middle powers generally by looking at the actions of Australia, which has emerged as a leading exemplar of the middle power dilemma: trying to play a creative role in international diplomacy only to be undermined by the actions of more powerful states and the timidity of domestic political elites.

Middle Powers in Theory

Middle power theory, such as it is, has waxed and waned in the academic literature. In this regard, it is no coincidence that the first substantial interest in middle power theory occurred in the immediate aftermath of the Cold War's ending. Hitherto, the implacable strategic imperatives and logic of the bipolar stand-off between the US and the Soviet Union—which seemed a serious ideological rival for decades, it should not be forgotten—meant that economics was frequently a second-order issue. Grand strategy was the prevailing logic in the decades following the Second World War, and lesser states in both the capitalist and 'communist' camps played supporting roles at best (Gaddis 1997). While Ruggie (1982) famously pointed out that the capitalist powers had a degree of autonomy in the domestic sphere, there was next to no capacity to influence the larger geopolitical picture.

When the Cold War abruptly ended, confounding generations of international relations specialists in the process, there seemed to be an opportunity for lesser states, freed from the constraining obligations of superpower confrontation, to assume a more independent role. The underlying logic of the international system seemed to be shifting inexorably from geopolitics to geoeconomics (Luttwak 1990), a possibility encapsulated by former American president Bill Clinton when he famously declared that 'it's the economy, stupid'. In a context where the US could no longer be relied upon to play its hegemonic role as the provider of collective goods, it made sense for other states to think about their own interests, which suddenly looked less irrevocably tied to those of the US. But before we look at some examples of how these processes played themselves out, it is important to say something about what potentially distinguishes middle powers from other actors in the international system.

How Would We Know a Middle Power If We Saw One?

Perhaps the principal difficulty when talking about middle powers is that they are rather difficult to define. At one level, middle powers are all those states that are not either 'great' or actually failing. However, given that this definition includes a very large number of states with next to nothing in common, it is not terribly illuminating. Even a more restrictive definition that takes account of factors such as gross domestic product (GDP), military prowess, or population, for example, would include a large number of states, many of which are neither democracies nor necessarily capable of acting effectively in the broadly conceived international sphere even if they had the opportunity to do so. It is the all-encompassing, ill-defined nature of the middle power concept that makes some scholars sceptical about the idea's potential utility as an explanation of state behaviour (see Beeson 2011).

It was precisely to overcome these sorts of definitional problems that one seminal contribution to the debate suggested that middle powers should be recognised by their *behaviour* rather than simply by their position in the international order. Consequently, Cooper et al. (1993: 19) suggested that middle powers were defined by their:

> …tendency to pursue multilateral solutions to international problems, their tendency to embrace compromise positions in international disputes, and their tendency to embrace notions of "good international citizenship" to guide international diplomacy.

A number of points about this definition are worth emphasising as they help us to understand both the potential of, and the constraints upon, putative middle powers. First, some issue areas lend themselves more readily to the interventions of middle powers than others—in principle, at least. As we shall see, strategic independence tends to be especially difficult for middle powers to contemplate, much less embrace. Yet even in the economic arena, where we might expect national interests and perspectives to play a more prominent part, and where the debates are rather more technocratic and less existentially fraught, middle powers are often incapable of, or unwilling to, challenge the prevailing wisdom. This is a second, especially conspicuous potential shortcoming in the one area where middle powers might be expected to play a more prominent role: championing normatively 'progressive' causes. While there have been some notable successes in this context, especially Canada's role in outlawing the use of landmines (Cameron et al. 1998), such initiatives have tended to be the exception rather than the rule. Indeed, some middle powers such as Australia have endured sustained criticism of their human rights records, while other notional middle powers such as Turkey, the Philippines, Thailand, Egypt, Hungary, and many others are currently associated primarily with a rising global tide of authoritarianism (Cooley 2015), rather than as champions of noble causes.

The general inability of middle powers to deviate from the dominant nationalist, strategic, or even economic discourses of the day is a third feature of their behaviour that takes some explaining. After all, one of the other distinguishing qualities of middle powers is that they are supposed to have the capacity to act as knowledge or idea brokers (Evans 2015), developing approaches to policy that the great powers might be unable or unwilling to promote or contemplate. The reality, however, is that policy innovation often has its origins outside that state altogether; even the most powerful states these days are more reliant on, or actually replaced by, the activities of non-state actors (Stone 2008). In part, this is a generalised feature of long-run structural and ideational change of a sort associated with 'globalisation' (Dicken 2011; Lee and Strang 2006). In part, however, the constrained role of nation states in the contemporary era, especially less powerful ones, is a feature of the sort of international order that has emerged under American hegemony and the sorts of 'followership' roles middle powers have voluntarily assumed or been compelled to adopt. Put simply, some states chosen to prioritise what they see as geopolitical imperatives over geoeconomic opportunities, with predictable consequences for their relative policy autonomy as a consequence.

This seeming paradox, in which middle powers are simultaneously seeming to play more prominent but less decisive roles is a feature of the multilateralised nature of followership highlighted by Cooper et al.'s (1993) pioneering study. Multilateral institutions ought to be the natural venue of choice for aspiring middle powers as they famously 'coordinate behavior among three or more states on the basis of generalized principles of conduct' (Ruggie 1993: 14). Note that in this ideal-typical conception of multilateralism, it is the willingness to participate, and to be equally bound by the obligations of any agreement that is pivotal, not the relative size or importance of individual states. In other words, multilateral organisations play precisely the sort of 'self-binding' role that Ikenberry (1998) argues are such a distinctive feature of American hegemony. In reality, however, the picture is rather more complex, and even within institutions that notionally enshrine equality, some states are notably more equal than others, to paraphrase George Orwell.

Middle Powers and Hegemonic Orders

One of the more innovative approaches to middle power theory of late has been Andrew Carr's suggestion that we should know middle powers by their actions not their words. Rather than looking at the material position or potential of middle powers, we should look at their efforts to have an impact on and in the wider international system. More specifically, he suggests that 'a systemic impact approach defines middle powers through their ability to alter or affect specific elements of the international system in which they find themselves. This approach defines middle powers through the outcome, rather than the intention, of their actions' (Carr 2014: 79). In my view, this should also apply even to those actions that are ultimately unsuccessful. Such a definition has the advantage of usefully differentiating between rhetoric and reality, and the propensity some middle powers (and their supporters) have for making unsubstantiated, grandiose claims about their importance.

The most obvious gap between outcomes and expectations can be seen in strategic relationships. Even after the Cold War ceased to be the principal determinant of international affairs, the strategic orientation of many putative middle powers displayed little change (Beeson and Higgott 2014). In Australia, for example, a continuing privileging of the alliance relationship with the US meant that it was not only overtly strategic policy options that were limited as a consequence. On the contrary, the conservative government of former prime minister John Howard negotiated a bilateral trade deal with the US as part of a wider agenda of 'revitalising' and prioritising the alliance. The rather

predictable consequence of an agreement that even Australia's own negotiators regarded as flawed has been a further deterioration in Australia's balance of trade with the US (Armstrong 2015).

While some may claim that trade figures are increasingly meaningless and should not be a measure of successful policy (Sturgeon and Gereffi 2009), the Australian case illustrates the potentially irreconcilable priorities that confront lesser powers in an international system that is still dominated by the most powerful states. Even if Australian policymakers are enthusiastic supporters of the liberal international order that was created under the auspices of American hegemony during the Cold War, it is clear that the US not only retains the ability to shape this system in ways that reflect its interests rather than those of the system as a whole. It is an ability that it has used on a number of occasions, and not just in the so-called era of unipolarity under George W. Bush and the catastrophically misjudged intervention in Iraq. On the contrary, various American administrations have succumbed to the 'unilateralist temptation' and acted unilaterally in the economic sphere as well when they judged it to be in America's 'national interest' (Skidmore 2011).

The point to emphasise is that even before Donald Trump came to power, the US had a record of unilateralism in the area of strategic *and* economic policy (Beeson and Broome 2010). While the US may have played the role of provider of international collective goods and hegemonic stabiliser when they judged it in their national interest, they were prepared to flout such non-binding, unenforceable obligations when it suited them to do so. However, when the current president of the US is relentlessly focused on 'America first' and appears to have little appreciation or understanding of the benefits that flow to the US from the existing system (Robertson 2017), then the potential for riding roughshod over the interests and preferences of friend and foe alike is considerably greater. The quintessential example of this possibility was the unilateral abandonment of the Trans Pacific Partnership (TPP), despite the fact that key middle power allies, such as Japan and Australia, had spent years painstakingly negotiating what they saw as an important agreement (Beeson and Wilson forthcoming; Harding 2017). The key question now is whether the TPP's remaining middle powers can actually follow through with a reduced TPP in the US's absence. If they can—and at this point the auguries are quite good despite Canadian ambivalence (Murdoch 2017)—this will, indeed, be a positive validation of the potential of middle power activism.

One of the most striking consequences of the advent of the Trump presidency has been to undermine the confidence of some allies in the durability of American hegemony and the US's willingness and capacity to underpin the extant order (Hodge 2017). Equally noteworthy has been a remarkable change

of rhetoric emerging from the People's Republic of China, in which the 'communist' regime led by the increasingly powerful figure of Xi Jinping has moved to position itself as an unlikely champion of globalisation (Browne 2017). One might intuitively expect that smaller states and economies highly exposed to, and reliant on, the global trading system would be carefully crafting new policies to cope with a rapidly shifting external environment. The reality is more complex: for states such as Australia, geopolitical concerns—especially about the possible strategic significance of the rise of China—continue to trump geoeconomic ones (Lewis 2017). This necessarily constrains the economic policy options and even ideas about possible strategic options that are open to middle powers as a consequence.

Even in the unlikely event that China replaces the US as the hegemonic power of the era in the foreseeable future, this is unlikely to change the principal underlying realities of the international economic system: great power politics will continue to shape the international economic order and the principles and rules that govern it in systemically significant ways (Drezner 2007). This historical record of middle power practice tends to confirm this rather deflating conclusion.

Middle Power Influence in Practice

For all the theoretical attention that middle powers are beginning to attract in the academic literature, actual examples of them making a decisive difference in practice are revealingly thin on the ground. Other than the previously cited and celebrated work of the Canadians in engineering an international ban on the use of land mines, successful case studies are notable by their absence. Indeed, in the field of international political economy, it is necessary to go back to the late 1980s and early 1990s—just as the Cold War was ending, in fact—to find a significant example of middle powers actually making a difference to international economic outcomes. The seminal example here was the formation of the so-called Cairns Group of fair Trading Nations in 1986. It is revealing in itself that we have to go so far back in history to find a grouping of middle powers that actually seemed to have had some impact in the economic sphere. The Cairns Group was in the right place at the right time, able to take advantage of a possibly unusual, if not unique set of circumstances. The question this poses in retrospect, of course, is whether these demanding conditions are replicable in the contemporary era.

A number of factors came together to create a political space in which Australia—driven by a heightened sense of its distinctive national economic

interests—was able and willing to play an entrepreneurial role as a broker of new ideas and coalition builder. The Uruguay Round of trade negotiations conducted within the framework of the General Agreement on Tariffs and Trade (GATT), which would eventually be replaced by the World Trade Organization (WTO), revealed that neither the US nor the European Community were capable or willing to play the sort of system-supporting, agenda-setting role that many other states had hoped and expected. The result, according to Higgott and Cooper (1990: 591–92), was that:

> progress in agenda setting and in the negotiating process [was] significantly facilitated by the activities of the Cairns Group as a constructive bridge builder and consensus seeker in the tense and sometimes conflictual relationship not only between the major actors but also between the major actors and some of the more antagonistic developing countries.

In other words, the group of 20 agricultural-exporting countries, which included the likes of some classic middle powers, such as Argentina, Brazil, Canada, Chile, Malaysia, and South Africa, were able to make common cause at a time when the great powers of the system were either divided along ideological lines or stymied by their own incompatible national goals. Their actions were also encouraged and facilitated by a series of economic shocks that not only acted as an incentive for action but which also undermined confidence in the ability or willingness of the great powers to act as system stabilisers and providers of collective goods.

This episode is of more than historical curiosity for a number of reasons. First, it is significant that the Cairns Groups was concerned with trade issues, which have a metaphorical and literal visibility that some other issues do not. For some policymakers and analysts, this gives them a political salience that eclipses nuanced debates about the actual importance of trade figures in the contemporary international economy (Irwin 2016; Sturgeon and Gereffi 2009). Global finance, for example, despite being associated with recurring and arguably more significant economic crises over the years (Reinhart and Rogoff 2009), has proved more resistant to reform and less of a target of middle power activism. In part, this may be because the financial sector was simply not as large, structurally significant, or as tightly regulated as it was in former times; in part, it may have been the sheer 'technical' difficulty of deciding how to respond to the rapidly evolving financial sector itself (Helleiner and Pagliari 2011). More prosaically, of course, despite the continuing threat posed by a lightly regulated, systemically fragile 'global' financial sector, powerful states such as the US and UK continue to host influential financial institutions that

resist reform (Crotty 2009; Stiglitz 2007; see also Schelhase (Chap. 21), this volume). In this regard, the reigning hegemon of the era is pivotal, especially when it prioritises national over possible collective interests.

The Structural Impediments to Middle Power Influence

Even now, the US has a structural importance in the world economy that transcends the actions of any single president (Wagstyl et al. 2017; Konings 2009; see also Vermeiren (Chap. 17), this volume). American structural power—especially as manifest in size of its domestic market, the depth of its financial sector, and its continuing influence over the extant institutional architecture that seeks to manage an increasingly integrated global economy—means that the prospects for lesser middle powers to influence regulatory outcomes are limited. The quintessential exemplar of this possibility in the contemporary period can be seen in the so-called global financial crisis (GFC) that broke out in 2008, primarily as a consequence of the poorly regulated actions of financial institutions in America's domestic market (Bell and Hindmoor 2015; Tett 2009). Indeed, the principal impact of the GFC was felt in the US itself and the EU, which was particularly exposed to the US. Asia, by contrast, emerged largely unscathed form a crisis that further undermined American leadership credentials and the attractiveness of a poorly regulated neoliberal form of capitalism (Kirshner 2014). It is important to remember, however, that, at the time, it was far from clear that the crisis would be contained, and this gave an unexpected prominence to the Group of 20 (G20) grouping, which found itself charged with saving the world from what seemed like the very real prospect of plunging into economic catastrophe.

For many analysts and policymakers, the G20 is potentially the quintessential venue for, and expression of, the possible growing significance of middle powers (Cooper 2010). After all, one of the reasons that the G20 exists at all was widespread disenchantment with the existing system that was seen as unrepresentative of a rapidly evolving international order in which major states such as India, Brazil, and South Africa, and especially China were often absent. China is a special case that merits separate consideration, given its growing status as a 'peer competitor' of the US (Hung 2013), but the general point seemed irrefutable to many observers: existing groupings such as the Group of Seven (G7) and institutions such as the International Monetary Fund no longer reflected the new international order; they also seemed less able to deal with major international crises that affected a more diverse group of countries (Wade 2011). It is precisely such sentiments and structural change

that led to the emergence of the G20. Yet after playing an important role in helping to coordinate the international response to the GFC, the G20 has become marginalised and constrained by great power priorities as it struggles to define a role for itself and have a direct impact on its membership (Berkelmans and Sainsbury 2016).

Once again, the Australian experience epitomises the continuing impotence of middle powers and their limited influence in shaping international economic outcomes (Beeson 2011). It is important to remember that—in theory, at least—middle powers are becoming more significant because they have a capacity to act as brokers of new ideas and policies, especially in areas that the great powers might not be willing or able to address. Given the growing competition for leadership of the international system from China, this is a potentially auspicious moment (Browne 2017). Global financial governance looks like an important case in point. On the one hand, the structural importance and political influence of 'Wall Street' has made successive American governments unwilling to act decisively against an industry that poses systemic risks, but which wields a profound influence over the regulatory framework that supposedly controls it (Baker 2010). On the other hand, middle powers have often suffered enormous collateral damage from the crises that continue to grip the global economy on regal occasions. In short, middle powers have good, self-interested reasons for trying to encourage reform and reduce their own vulnerabilities.

Former Australian prime minister Kevin Rudd was an enthusiastic advocate of middle power diplomacy and a source of potentially important policy ideas and initiatives. Indeed, Rudd's (2009) analysis of the GFC was remarkable both for its insight and for its critique of the manner in which a poorly regulated form of neoliberal capitalism had created systemic dangers and was helping to entrench inequality. Rudd argued that the GFC generated a

> crisis which is at once institutional, intellectual and ideological. It has called into question the prevailing neo-liberal economic orthodoxy of the past 30 years - the orthodoxy that has underpinned the national and global regulatory frameworks that have so spectacularly failed to prevent the economic mayhem which has now been visited upon us….Neo-liberalism, and the free-market fundamentalism it has produced, has been revealed as little more than personal greed dressed up as an economic philosophy. And, ironically, it now falls to social democracy to prevent liberal capitalism from cannibalising itself.

In retrospect the significance of Rudd's intervention was that the leader of a middle power identified—fairly accurately, in my view—some of the core

contributing factors underpinning the GFC and highlighted the possible contribution that 'social democratic governments' could make in addressing it. The principal institutional mechanism for facilitating the economic rescue was the G20, an organisation that contained most of the world's most consequential middle powers. Although the G20 did, indeed, play an important role in coordinating the actions of both the directly affected economies like the US and Britain, it was also instrumental in encouraging China to take pre-emptive action—something that undoubtedly helps to explain why it and the rest of East Asia emerged relatively unscathed. Once the crisis abated, however, the G20 returned to business as usual. The G20 has subsequently been relegated to the margins of global economic governance and has little long-term impact on the structural power and influence of the financial sector that was at the heart of the original crisis (Beeson and Bell 2009; Haley 2017). The inauguration of Donald Trump has only confirmed a pattern of selective engagement and a continuing privileging of national rather than collective interests (Greber et al. 2017).

Even when middle powers collectively or individually develop policy ideas and initiatives in issue areas that directly affect them, therefore, there is absolutely no guarantee that they will have any influence, much less become part of the fabric of what passes for global governance. By contrast, great powers retain the capacity to ignore or nullify proposals that are not congruent with their perceived national interests. This is not only true when middle powers confront great powers, it can also occur when middle powers attempt to act in unison. Keven Rudd's other 'big idea'—developing an 'Asia Pacific Community' to address regional security and economic problems (Lee and Milner 2014)—was effectively killed off by the Association of Southeast Asian Nations (ASEAN), who were nervous that it might undercut their traditional position as regional leaders. In reality, ASEAN serves as an unfortunate reminder of the limits of the capacity of middle power collectives to act effectively —a possibility demonstrated by China's highly effective divide and rule policy towards its territorial claims in the South China Sea (Beeson 2015; Callick 2016).

Concluding Remarks

Despite the growing theoretical and practical interest in middle powers, it is difficult to find compelling evidence of their capacity to make a significant difference to the conduct of international relations. While this may not come as much of a surprise in the geopolitical arena, perhaps, it is more unexpected in the economic sphere. After all, we might intuitively expect that, given the

'technical' nature of some economic problems, 'good' ideas would triumph over bad ones. Although there is, indeed, compelling evidence about the nature of policy transfer and learning, especially at moments of crisis, there are also clear limits to such processes (Blyth 2013). On the one hand, the spread of neoliberal ideas was driven by the US at the height of its powers. On the other hand, it seems to take a major crisis or 'critical juncture' to change the conventional wisdom, even then the impact may not be long lasting if the structural power of vested interests reasserts itself within the domestic politics of the international system's dominant power. This is precisely what seems to be happening in the US, where regulations designed to ward off future crises are being systematically unwound (Puzzanghera 2017).

Would it make a difference to the prospects of middle power influence if we experienced a process of hegemonic transition and China, rather than the US, played a more prominent role in setting international standards? Probably not. While some systemic norms may change, the possibility that China might listen, much less change its policies in response to the injunctions of middle powers looks even more remote. State sovereignty is fiercely protected by China and sensitivity about external criticism is even more heightened. Likewise, China's disdain for lesser powers was rather starkly revealed by Yang Jiechi when he said that 'China is a big country and other countries are small countries, and that's just a fact' (Kurlantzick 2011). China, like the US before it, is likely to continue privileging its own national interests above all else. The rather sobering reality for middle powers and their leaders is that middle power moments may be few and far between. Even for those leaders who attempt to seize them, the realities of great power politics and national interests may make the chances of effective international cooperation—even in the economic sphere—as remote as ever.

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14

Conceptualising Emerging Powers

Laura C. Mahrenbach

Introduction

Scholars of International Relations (IR) and International Political Economy (IPE) have spilt extensive ink examining how emerging powers' (EPs) changing role in global trade, finance, capitalism, development, and health poses both challenges and opportunities for governance of these issue areas (e.g., Huotari and Hanemann 2014; Bremmer and Roubini 2011; Ikenberry 2008; Lesage and Van de Graaf 2015b; Kirton et al. 2014). Much of this literature is written in dramatic, either-or terminology. Will EPs be 'irresponsible stakeholders' (Patrick 2010), creating 'a world without the West' (Barma et al. 2007) and facilitating a 'paradigm shift' (Harmer and Buse 2014) in which 'conflict [is] inevitable' (Friedberg 2005)? Or are they 'system preserving powers' (Scott and Wilkinson 2015) simply seeking 'coexistence' (de Coning et al. 2015) and 'polycentric governance' (Mittelman 2013)?

While these studies have produced valuable empirical insights, the simplicity of their terminology is belied by the complexity of their findings. A better understanding of EPs' behaviour and the implications of their rise requires a

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clearer conceptual understanding of what, exactly, makes an emerging power. Nowhere is this truer than in global economic governance (GEG). After all, whether via the 'institutional entrepreneurism' of creating the New Development Bank (NDB; Stuenkel 2016) or leveraging their growing material credentials for decision-making power in the Bretton Woods institutions (see Armijo (Chap. 2), this volume), it is in GEG that EPs have, collectively and individually, been most active in promoting their rise in world affairs. Consequently, and complementing other attempts to conceptualise EPs in the literature (Destradi 2016; Mittelman 2013; Miller 2016; Hurrell 2006), this chapter examines both contemporary understandings of EPs and the current concept's flaws through the empirical prism of GEG institutions.

Contemporary Characterisations of Emerging States

The first two steps of Sartori's (1984/2009) guidelines for concept analysis comprise collecting definitions, in this case, of 'emerging powers' and related terms[1] and extracting secondary-level, or constitutive, characteristics from them. Definitions are crucial aspects of conceptualisation, with some authors even going so far as to assert that 'there is no real difference between defining a word and providing an analysis of a concept' (Goertz 2005, 3, citing Robinson 1950). The analysis in this section draws on the definitions of EP states offered in both the empirical and theoretical literatures, regardless of the centrality of EP definitions to the piece in which they appear. Doing so provides a broader survey of how the concept is understood and operationalised in today's literature than focussing on the conceptual literature alone would do. It is, therefore, also more valuable for extracting EPs' identifying characteristics. Three such characteristics appear relevant when identifying EPs: material capability, diplomatic ambition, and peer recognition.

Before proceeding, however, two caveats should be mentioned. First, the discussion which follows primarily focusses on literature from the 2000s, that is, since Jim O'Neill's 2001 coining of the BRICs (Brazil, Russia, India, China; with later addition of South Africa: BRICS) and the subsequent

[1] The literature reviewed in this section discusses the same phenomenon—the rise of EPs like Brazil, India, or China—but does so with the help of different terminology. In addition to 'emerging powers,' monikers reviewed include emerging markets, emerging market economies, emerging economies, emerging countries, emerging middle powers, emerging market powers, rising powers, would-be great powers, second-tier states, intermediate countries, and new powers.

groundswell of attention, literature, and political developments that led these states to become the poster children of this 'new' type of state. O'Neill's study, however, was grounded in years of prior work on a more diverse set of 'emerging markets' (van Agtmael 1984; Garten 1997; see also Nederveen Pieterse (Chap. 15), this volume). Like contemporary scholars, these authors acknowledged that there were no agreed criteria identifying emerging markets. However, they, nonetheless, largely and exclusively used economic factors, for example, higher levels of development or a commitment to market liberalisation for that purpose (see Arnold and Quelch 1998). As Sharma (2014) illustrates, and as it is argued below, doing so fails to account for the political economy of these states' decisions and can result in incorrect interpretation of the global context within which they operate. Given my focus on conceptualising emerging states and concurrent interest in the political impacts of their rise, for instance, on global economic rule-making, I focus on a more diverse set of criteria for identifying them. Second, as it becomes evident, the defining characteristics profiled here cannot be totally separated from one another. Consequently, in addition to discussing how authors use them in defining EPs and their expected behaviour, I also discuss the relationships among them.

Material Capability

Material capability refers to EPs' growing military and economic power resources. Traditional, neorealist discussions of 'challenger states' focussed largely on rising states' growing military capabilities vis-à-vis established powers and/or hegemons (Kennedy 1988). However, only a few authors identify military capabilities as a crucial characteristic distinguishing EPs in today's world (Cooper and Flemes 2013; Schirm 2010; Acharya 2014; Vanaik 2013).

Economic capabilities, in contrast, loom large in the literature. A first set of authors sees the absolute size of EPs' economic capabilities as crucial to recognising EPs. For example, many point to EPs' strong growth rates in the first decade of the twenty-first century as a defining characteristic (Schwab 2011; Acharya 2014; Chin 2013; Abdenur and Folly 2015). EPs are additionally characterised by their large economic size, expanding consumer markets, and demographic advantages (Narlikar 2010b). Growing integration in world trade, dominance within regional economic relations, and continued attractiveness to foreign investors have further enhanced EPs' capabilities (Armijo 2007; Jordaan 2003), as has the innovation and worldwide expansion of emerging multinational corporations (Ramamurti and Singh 2009; see also Nölke (Chap. 9), this volume). As Chin (2013, 896) notes, these features

have ultimately made EPs the 'fastest growing, most dynamic large economies in the world'.

A second set of scholars focusses on EPs' relative economic capabilities as the distinguishing factor. For example, policies implemented by EP governments to facilitate their own domestic development can generate economic and social harm in poorer Southern countries (Nel and Taylor 2013). Such growing imbalances in economic capabilities lead developing countries to see EPs as 'emerging' or even 'dominant' in world affairs (Straubhaar 2015), thereby demonstrating how capabilities and peer recognition may work together in identifying EP states. Imbalances of capabilities can also enable EPs to serve as developing country representatives in global governance, as they have throughout the WTO's Doha Round of trade negotiations (Narlikar 2013). This highlights the interaction of capabilities and diplomatic ambition in defining today's EPs.

Diplomatic Ambition

EPs are thought to direct their political ambitions towards joining the ranks of established states, hence terms such as 'aspiring global powers' (Vanaik 2013) and 'would-be great powers' (Hurrell 2006) in the literature. Traditionally, this aspiration was viewed as a threat towards the existing system of global governance, and some commentators continue to worry about the impact of EPs' rise on developed states and the system of governance they continue to dominate (e.g., Patrick 2010). However, viewing the diplomatic ambitions of today's EPs as a threat to global governance remains largely marginal in the literature. Even in their most challenging actions—for example, the creation of the NDB by the BRICS states in 2014—EPs have done little to disrupt either the norms or the practices of existing GEG (Abdenur and Folly 2015). Rather, EPs are expected to pursue their aims through 'evolution not revolution' (Armijo and Roberts 2014, 25). In this context, *diplomatic ambition* refers either to EP pursuit of higher status in world affairs or to attempts to exert greater influence over global governance rules and outcomes.

Status transitions are a pivotal part of EPs' foreign policy strategies, both within their regions and within the global context (Abdenur 2015; Macfarlane 2006). EPs pursue status gains by globalising their foreign policy interests and by assuming more responsibility abroad as they become more powerful (Destradi 2016; Jordaan 2003). This can be seen in the transformation of the role played by EPs in the WTO's Doha Round relative to the role the same countries played in the previous Uruguay Round. This shift in foreign policy

priorities is reinforced by domestic recognition of the status gains achieved within EP states. Domestic support legitimises EP governments' global activism and makes it easier for them to convince their counterparts to recognise status improvements (Miller 2016). In addition, changes in status can derive from improving material capabilities. For example, Armijo and Katada (2014) describe how EPs' economic strength and quick recovery during the global financial crisis resulted in the newfound prominence of the Group of Twenty (G20) in global financial rule-making. Crucial to this element of diplomatic ambition as a defining characteristic is that it is incomplete: EPs 'have not yet reached developed status' (Schwab 2011, 105) and, therefore, remain committed to pursuing additional gains.

A second element of EPs' diplomatic ambition refers to attempts to achieve more influence over global rules and outcomes. EPs feel entitled to more influence within the US-led global order and increasingly leverage their economic capabilities to achieve it (Cooper and Flemes 2013; Hurrell 2006). For instance, during the financial crisis, EPs made their monetary contributions to global recovery efforts dependent on guarantees the International Monetary Fund (IMF) would enhance EP representation in decision-making (Woods 2010). Likewise, they have actively pursued the institutionalisation of their health preferences at the WTO and World Health Organisation and have promoted a different model of health governance from that supported by states like the US (Harmer and Buse 2014; Yu 2008). In fact, EPs have had some success in achieving these diplomatic ambitions: they have established themselves as veto players within the international system (Narlikar 2013) and engage in both rule-taking and rule-making behaviours as necessary to accommodate domestic economic needs (Lavenex and Serrano 2016). However, EPs are just as likely to fail in achieving their goals as to succeed (Schirm 2010), and scholars remain divided regarding the extent to which EPs' plans for future GEG actually represent an alternative to the existing system (compare de Coning et al. 2015, and Kahler 2013). Hence, it is EPs' incomplete aspirations to more influence and better status that appear to characterise EPs, not the actual achievement of their diplomatic ambitions.

Peer Recognition

Recognition of EPs' newfound status by their peers is a less pervasive but, nonetheless, significant element of existing EP definitions. Three types appear relevant. First, some argue EPs' changing position in the world must be acknowledged by developing country partners. Gaining such recognition is a

core element of EP foreign policy strategies (Lima and Hirst 2006), especially as EPs often serve as representatives of developing states in global governance. Given the shared history of marginalisation, exploitation, and disenfranchisement in global affairs among EPs and developing states as well as a multitude of shared domestic problems (Muhr 2016; Shaw et al. 2007), gaining developing country recognition depends on EPs' setting themselves apart from the broader Global South. One preferred strategy has been to make use of EPs' growing material capabilities. For example, like established states, EPs are investing heavily in Africa, primarily intent upon extracting natural resources necessary to facilitate their own continued growth but framing cooperation, nonetheless, in terms of mutual benefit (Khanna 2009). Alternatively, EPs may articulate a regional project, such as a development bank, as a means of gaining acknowledgement of their leadership potential (Mazenda and Ncwadi 2016). The perceived importance of such acknowledgment is evident in EPs' willingness to adjust their behaviour, for instance, in trade negotiations, to attract followership from this group (Efstathopoulos 2012).

Others underline the importance of EPs recognising one another as such. The BRICs' decision to transform an investment tip into a political actor demonstrates the important role EP clubs play in identifying which states 'count' as EPs (Stuenkel 2014; Acharya 2014). This recognition is solidified by growing ties amongst EPs in formal international organisations (IOs), for instance, as coalition leaders within the WTO. It is further cemented by EP government decisions to cooperatively create own institutions, such as the NDB. Importantly, EP clubs, coalitions, and institutions encourage peer recognition not just by identifying which states belong but also by excluding potential candidates from EP status (e.g., Indonesia or Nigeria; see Cooper and Farooq 2015). Although competitive pressures can complicate benefits arising from inclusion in EP clubs (Pant 2013), scholars have identified significant changes in global governance resulting from EP policy coordination (see Lesage and Van de Graaf 2015a). Consequently, garnering the recognition of other EPs can both legitimise EPs' diplomatic ambitions and open new avenues to enhance EPs' material capabilities.

Finally, yet others argue established states must acknowledge EPs' elevated status. States like the US or Japan have more power resources in institutions like the IMF and the World Bank than do EPs and use these resources to repackage and prolong their privileges despite changing global power conditions (Lesage et al. 2013; Vestergaard and Wade 2015). Given these institutional disadvantages, gaining established state recognition of EPs' changing status is crucial if EPs are to realise their diplomatic ambitions in formal institutions of global governance. Evidence suggests that this is possible, if not

easy. For example, EPs were increasingly included in small-group decision-making as the WTO's Doha Round progressed. This helped established states by securing EPs' continued participation in the Round without sacrificing the benefits established states receive from status quo trade governance (Wilkinson 2014). For EPs, in contrast, it represents both public acknowledgement of EPs' improved status and a new opportunity to pursue their diplomatic ambitions in trade policy (Narlikar 2010a; Efstathopoulos 2012). Established states may additionally acknowledge EPs' changing status by including them in informal clubs like the G20 or the Group of Eight (G8; Vezirgiannidou 2013). This setting suits both established states, whose governments necessarily have more leverage in informal settings than in rule-based IOs, and EPs, whose elevation into groups like the G20 offers a position of (symbolic) equality with established states (Cooper 2014).

Conceptual Critique

Despite the relative clarity of the extracted characteristics presented in the previous section, two major conceptual issues persist, namely, the EP concept's internal coherence and its limited differentiation from concepts describing other types of states (e.g., established powers). Whereas the former causes problems in identifying EPs, the latter makes it difficult to properly evaluate the impact their rise will have.

A Lack of Coherence

Internal coherence refers to the extent to which 'the characteristics which actually characterise the phenomenon in question "belong" to one another' (Gerring 1999, 373). At the base of all three characteristics reviewed in the previous section is the idea that EPs are in the process of transitioning to a position of enhanced global political or economic power, that is, they are experiencing an 'upward trajectory […] towards a more positive structural position than [EP's] previous one' (Fonseca et al. 2016, 65). Along these lines, EPs can be concretely characterised by a transition from a weaker to a stronger position in the global economy, by a transition from being 'rule-takers' to 'rule-makers' in global governance, and/or by a transition from simply being one of the multitude of developing countries to belonging to a more limited group of EPs. By linking our defining characteristics, the theme of transition suggests a degree of coherence in the EP concept. However, a closer look

shows that both EPs' transition process and the end goal of the transition are empirically underspecified (Kahler 2013). This makes EPs' transition a useful lens through which to view the incoherence in today's EP concept.

Regarding EPs' transition process, Hopewell (2015) shows that Brazil, India, and China (the BICs) have taken 'different paths to power' at the WTO, with Brazil and India's comparatively smaller material capabilities enabling them to pursue their ambitions in ways which would have been considered threatening coming from China. This suggests that the relationship between EPs' capabilities and ambitions may be important for understanding both their behaviour and others' reactions to their rise. Studies evaluating EPs' transition process across global governance institutions could help determine how EPs' defining characteristics relate to one another. Yet such studies are lacking in today's literature. Similarly neglected is the question of how reversals of fortune in an EP's transition process, for example, Brazil's floundering economy or the diplomatic isolation experienced by Russia following its annexation of Crimea, affect that state's membership in the group of EPs. Must material gains steadily increase and/or peer recognition be consistent to be considered an EP?

Turning to the end goal of EPs' transition, it is implicit in the literature that EPs ultimately seek to join the group of established states and to achieve privileges reserved for those states. This has been evident not just in their well-documented activities within IOs (see Lesage and Van de Graaf 2015b) but also in their formation of informal clubs, such as the BRICS group, when efforts to gain entry to established state clubs like the G8 founder (Kirton 2015). Yet, it remains unclear what constitutes established state status for these states. Is it simply the consistent ability to ensure favourable outcomes in global affairs? This approach garners support from EPs' increasing willingness to pursue their goals in multiple fora, their growing diplomatic skill, and their creation of own governance fora when existing options fail to meet their needs. However, it assumes that effective use of EPs' material capabilities in pursuit of their diplomatic ambitions can essentially oblige established states to accept EPs in their ranks and implies these characteristics are relatively more important to understanding EPs and their behaviour than is peer recognition.[2]

An alternative perspective views peer recognition by established states as the only measure of established state status which matters for EPs in GEG. Structural hindrances in the existing system hamper both EPs' rise and reforms which would ameliorate institutionalised power imbalances (Lesage

[2] As Hopewell (2016) points out, this is a very high bar for identifying a state as established.

et al. 2015; Hopewell 2016). To make any progress towards achieving more favourable outcomes, established states must first acknowledge the validity and legitimacy of EPs' leadership aspirations and/or their reform proposals. Growing material capabilities cannot ensure this acknowledgement: Africa's largest economy, Nigeria, is excluded from the G20, while South Africa is included. Nor does diplomatic ambition guarantee such recognition: India and Brazil were active at the WTO long before gaining entrance to small-group decision-making.

This discussion points to two clear weaknesses related to the EP concept's internal coherence. First, we know little about the relationship between the direction of each characteristic and the EP concept. Must a state's material capabilities continuously increase to be classified as an EP? Must their ambitions be global in scale? Second, we know little about the relationship amongst the defining characteristics themselves and EPs' status. Can an excess of material capabilities compensate for limited peer recognition when identifying EPs? Or vice versa? Much work remains if we are to discover what unites, and what divides, emerging states.

A Lack of Differentiation

The second issue arising from the lack of conceptual attention is a lack of differentiation. Much attention has been paid to distinguishing EPs from similar concepts, including middle powers and regional powers (see Fonseca et al. 2016 or Beeson (Chap. 13), this volume). This suggests adequate engagement with conceptual differentiation in the classical sense, that is, determining 'the way in which a given concept relates to most-similar concepts' (Gerring 1999, 375) or its 'discriminating power' (Sartori 1984/2009, 105). However, to be empirically useful, there must be evidence that the EP concept reflects behaviours and motivations that are different from those linked to other concepts involving the same states (e.g., regional powers). Rather, at a more basic level, we must be able to distinguish EPs from other *types* of states, such as established countries.

This type of conceptual differentiation plays only a secondary role in the existing literature. Some scholars have identified differences in how EPs and traditional powers view international institutions and their normative preferences within world affairs. For example, the US and EPs share a strong commitment to sovereignty but differ regarding to whom strict sovereignty protection should apply (Vezirgiannidou 2013). Others have identified similarities. For instance, domestic preferences have led to similar behaviours

among emerging and established states within both G20 and global trade negotiations (Mahrenbach 2015; Schirm 2013). Nonetheless, most contemporary work handling emerging and established powers concurrently has focussed on other aspects of EP-established state relationships (e.g., competitive dynamics between rising and established states; see Kim and Urpelainen 2015).

More work is needed if we are to better differentiate EPs from established states and, in the process, analyse EPs' 'emergence' in a systematic way. This is important for two reasons. First, from a methodological perspective, if we lack knowledge regarding how, when, and if EP and established state behaviours differ, it makes it impossible to distinguish between the impact of state type and the impact of alternative factors (e.g., issue area, institutional context) in determining this behaviour. A lack of information additionally complicates efforts to determine how EP versus established state behaviour may itself affect political outcomes. In other words, conceptual differentiation is necessary to better operationalise the EP concept as both an independent and a dependent variable in our research.

Second, from a policy perspective, how can we accurately assess the likelihood of specific changes arising from EPs' 'emergence' if we cannot distinguish between where these states have 'emerged' and where they are still 'emerging'? For example, much of the literature discussing China ascribes to what Scott and Wilkinson (2015) term the 'China Threat Theory'. While some authors expect China's rise to have significant and even violent impact on global and regional affairs (Mearsheimer 2006), others are more optimistic, seeing potential for China to be incorporated in more powerful positions within existing global governance (Drezner 2007). The debate within these studies is organised around China's *transition* to a more powerful position in international affairs. Yet, others find that China has already joined the group of 'major powers' (Vanaik 2013; see also Mohan and Urban (Chap. 16), this volume). In the field of big data, for example, China is the 'best-resourced national government on the planet' and is increasingly pushing boundaries at home and abroad regarding the use and regulation of such data (Zeng 2016, 1452). Should China already qualify as an established state, even if only in specific policy areas, then, we must evaluate—and respond to—China's rise based on what is happening in the world today, not speculate about what will happen in the future. Consequently, it is crucial to determine the extent to which China and other EPs already qualify as established powers, where they are more or less likely to make that transition, and whether their behaviour as EPs demonstrates any similarities with the behaviour of the established states, to whose positions EPs presumably aspire.

A Revised, Unifying Emerging Powers Concept?

This chapter has discussed both the state of the art regarding how 'emerging powers' is used in the literature and the conceptual failings that have accompanied the explosion of empirical literature examining the BRICS; BICs; India, Brazil, and South Africa (IBSA); Mexico, Indonesia, Nigeria, and Turkey (MINT); and others. While I have argued that three characteristics—material capabilities, diplomatic ambitions, and peer recognition—are crucial for identifying EPs, this list is clearly not exhaustive. At the start of 2018, for example, a case could be made for innovative approaches to the global economy and the governance status quo as equally important. The NDB's recent General Strategy (2017) contains numerous such innovations, including a skeletal institutional structure, multiple loan approval pathways, and the use of purchased and transferred technologies in lending procedures and NDB projects. The BRICS expect these innovations to enhance development outcomes in the BRICS states (material capabilities) while correcting flaws in the existing development governance (diplomatic ambition).

As such, I am not advocating the development of a single EP concept, nor do I think scholars should limit their empirical engagement with EPs to examining capabilities, ambitions, and recognition. Rather, I am simply promoting more attention to the concept itself and proposing EPs' material capabilities, diplomatic ambitions, and peer recognition as a means of systematising our empirical engagement with these countries, both individually and as group actors. Doing so will force us to re-evaluate theoretical assumptions embedded in the existing literature. It will improve empirical understandings of EPs and their engagement in the contemporary world economy and global governance. Finally, it will enable us to better contribute to policy discussions of these states as their star in the global system continues to rise.

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15

Emerging Economies, Emerging Horizons

Jan Nederveen Pieterse

In the twenty-first century, growth in emerging economies outstripped growth in developed economies to the point that they have become drivers of the world economy. This chapter discusses the rise of emerging economies, why they are important, through what lenses they can be viewed, what discussions they have generated, phases in the rise of emerging economies, and their role in international finance.

Some basics first. Emerging markets (EMs) are developing countries with sustained growth over 5%; they number 23. Advanced economies number 23 and developing countries 60, per 2010 (Kose and Prasad 2010). Emerging markets and developing countries represented 45% of world gross domestic product (GDP) in 2011 (at the time they were anticipated to rise to 60% by 2030). The developing world's share of global GDP in purchasing power parity (PPP) terms was 33.7% in 1980, 43.4% in 2010, and 50% in 2013.

Finance and business use the term emerging markets. Emerging economies is a term used in global political economy and development studies, a successor to the earlier terminology of newly industrializing countries NICs. International relations and political science typically use the term emerging powers (see Mahrenbach (Chap. 14), this volume). EM is one among many investment memes that have been in circulation over the past three decades. A sample is in Table 15.1. The proliferation of investment memes indicates the growing importance of this category.

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Table 15.1 Investment memes

EM, EME	Emerging markets, Emerging market economies
BRICS	Brazil, Russia, India, China, 2001, with South Africa, 2010
CIVETS	Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa
MINT	Mexico, Indonesia, Nigeria, Turkey
MIST	Mexico, Indonesia, South Korea, Turkey
PINEs	Philippines, Indonesia, Nigeria, Ethiopia
N-11	Next 11 growth economies (Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, the Philippines, Turkey, Vietnam)
EAGLES	Emerging and Growth-Leading Economies
7% club	Countries that have averaged growth of at least 7% a year
E7	Seven largest emerging economies (BRICs, Indonesia, Mexico, Turkey)
'Fragile five'	India, Indonesia, Brazil, South Africa, Turkey, 2013
Growth markets	Indonesia, South Korea, Mexico, Turkey
SICS	Systemically important countries (BRIC, Mexico, South Africa, Turkey, South Korea)
VARP	Vietnam, Argentina, Romania, Pakistan, 2016

The rise of emerging economies stems from wider structural trends. One is the widening international division of labour that took shape in the 1970s when industries in advanced economies relocated basic operations in low-wage zones. The second major trend is the rise of Asia that began with the rise of Japan, followed by East Asia, India, and China. The rise of emerging economies includes and follows the 'East Asian miracle' of the 1990s. With the rise of Asia has come the growth of global East-South trade, energy, financial, and political relations. The rise of Asia is a 'return of the East' and is part of a long time series.

According to Kemal Dervis, then director of the United Nations (UN) Development Programme (UNDP), globalization in the past was a profoundly 'unequalizing process', yet 'today, the process is rapidly turning on its head. The south is growing faster than the north. Southern companies are more competitive than their northern counterparts… Leading the charge is a new generation of southern multinationals, from China, Korea, India, Latin America and even the odd one from Africa, aggressively seeking investments in both the northern and southern hemispheres, competing head-to-head with their northern counterparts to win market share and buy undervalued assets' (quoted in Peel 2005; see also Talani (Chap. 26), this volume). This matches several upbeat accounts (such as Marber 1998; Agtmael 2007). Also optimistic though complex in its assessments is the Human Development Report 2013, *The rise of the South* (UNDP 2013).

According to International Monetary Fund (IMF) estimates, China and India will overtake the GDP of the world's leading economies in the coming

decades. China passed the GDP of Japan in 2015 and will pass that of the US by 2025. In 2005, China surpassed the US as Japan's biggest trading partner, surpassed Canada as the biggest trading partner of the US, and surpassed the US as the world's top choice of foreign direct investment. If these trends continue, China will soon become the biggest trading partner of practically every nation. By 2025, the combined GDP of the BRICs—Brazil, Russia, India, China—would grow to one-half the combined GDP of the G6 (US, Japan, Germany, France, Italy, Britain). By 2050, according to a Goldman Sachs paper, the combined BRICs will surpass that group. 'China, India, Brazil and Russia will be the first-, third-, fifth- and sixth-biggest economies by 2050, with the US and Japan in second and fourth place, respectively' (Whelan 2004).

We can view the rise of emerging economies through various lenses—such as twenty-first-century globalization, the rise of the rest, and oriental globalization. Each perspective involves different dynamics, emphases, and time series. The keynote of twenty-first-century globalization as a lens is a comparison of the 1980–2000 era of neoliberalism and the Washington consensus and the twenty-first-century rise of emerging economies. While this involves large pattern changes, they are gauged in short-term changes. The degree to which these are trends or blips, time will tell. As a lens, twenty-first-century globalization is episodic, with an argument structure in the order of 40 years (1980–2020).

The 'rise of the rest' is a much wider angle than twenty-first-century globalization. Then the rise of emerging economies is part of long time series. This perspective enables us to view ongoing developments in the context of dynamics that unfold over 100 years or more. Alice Amsden used the notion of the rise of the rest in her book about the new industrializing economies of Northeast Asia, in particular, South Korea (Amsden 2003). It was a spoof, of course, on the rise of the West. Yet, a subtext of the rise of the rest is that it implicitly accepts the narrative of the rise of the West—the West rose and now it's the turn of the rest—and thus implicitly recycles a Eurocentric account of global history. Besides, the category is rhetorical and too wide; not *all* the rest is rising. Least developed countries, especially landlocked low-income countries such as Niger and Burundi, have not been rising. A perspective with a still longer time frame is oriental globalization, which involves the theme of the return of the East. Asia was the driver of the world economy during 18 of the past 20 centuries. Accordingly, oriental globalization preceded occidental globalization by many centuries, from about 500 CE (Nederveen Pieterse 2018 devotes a chapter to oriental globalization).

Narratives of Emergence

Until fairly recently, the rise of EM was a straightforward account of *convergence*: developing countries are growing faster than developed countries, hence in the not too distant future, for some countries even within a generation or so, they will converge with developed countries in per capita GDP and living standards.

A strong version of this account was the idea of *decoupling*; during the noughties, the growth of EM was so momentous that they no longer seemed to depend on advanced economies. The 2008 crash belied this notion, which was controversial all along. When slowdown in the US was followed by downturn in Europe, lagging demand in advanced economies caused slowdown for exports from emerging economies, notably China.

The idea that per capita GDP in developing and developed nations is converging has fallen by the wayside; it is occurring but much more slowly than was thought earlier. What came in its stead is the idea of the *middle-income trap*. Long time series of developing countries show that, as they rise to a level of around 30% of the living standards of the US, they often remain stuck at that level (Gill and Kharas 2007). This idea too has been tempered. According to later World Bank research, it isn't actually a 'trap'; but still the transition to a high-income economy and living standards remains difficult (Gill and Kharas 2015). Achieving high-income status remains part of the vision programmes of several countries, such as Malaysia's Vision 2020 and China's Vision 2050.

Why is the rise of emerging economies important? First, their above-average growth affects the world economy. With it comes a reconfiguration of the world economy which involves a 'new geography of trade' in relations between Asia, Latin America, the Middle East, and Africa. In development studies, the talk is of 'Asian drivers' of growth in developing countries (Kaplinksy and Messner 2008). Emerging economies are increasingly fulfilling core functions on the world stage—acting as development role models, providing markets, loans, aid, and security, with China as the leading force. Emerging economies don't just play this role in relation to developing countries; some of their model, creditor, and stabilizing functions unfold at a global level.

Second, with growing middle class and urbanization in developing countries come their growing importance as markets of goods and services across a wide spectrum, including luxury goods and investment markets (see Dayton-Johnson (Chap. 11), this volume). This involves long- and short-term dynamics. The growing middle class and urbanization in developing countries is a

long-term trend, while consumption patterns, life-styles, and ideological leanings are trend-sensitive and subject to fluctuations in purchasing power and volatility.

Third, the role of emerging economies in finance has been growing as well. Sovereign wealth funds from Asia and energy-exporting countries provide credit on a world scale and to international financial institutions (Teslik 2009). 'It was the emerging markets, most notably China, that pulled the world back from the brink of financial meltdown' (Oakley 2009). In the noughties, there was a remarkable reversal of creditor-debtor relations between the US and Asia and Middle East oil exporters, remarkable because it unfolded in international finance, the powerhouse of Western influence through which the US has sought to shape the course of emerging economies. High growth in emerging economies relative to slow growth or stagnation in advanced economies means their growing importance for international finance.

Fourth, there has been a reversal, too, of perspectives on globalization and classic economic postures. EMs are now the world's leading protagonists of free trade while the US and advanced economies opt for protectionism. Xi Jinping's presentation at the Davos World Economic Forum 2017 stands in marked contrast to President Trump's 'America First' policies and protectionist trade tariffs.

Fifth, it portends a reconfiguration of world order, though so far much of this is only dimly visible on the horizon. The unipolar world is no more nor is the world of the big powers, as the shift from the Group of Eight (G8) to the Group of Twenty (G20) in the wake of the 2008 crisis indicated (Altman 2009). Yet, even as hegemonic capacity isn't what it used to be, some of the habits of hegemony and following hegemony linger on. Global governance is 'still lost in the old Bretton Woods' (Editorial Financial Times 2009). The G20 may actually be a step back for it expands the rule of big countries over small countries and has transformed into an arena of contention over trade and currencies. Political transformations are more salient at regional levels, as in the Shanghai Cooperation Organization, the Association of Southeast Asian Nations (ASEAN) Economic Community, China's Free Trade Agreement (FTA) with ASEAN, ASEAN plus Three, and cross-regional cooperation such as India, Brazil, and South Africa (IBSA) and between Gulf Emirates and Asian countries. China's Belt and Road Initiative (BRI) is a major project of global historical significance (Nederveen Pieterse 2018).

Taken together, these trends signal a tipping point in history. North-South relations have been dominant for about 200 years (1800–2000) and current trends see the onset of an East-South turn. That emerging economies are the world's leading economies in the twenty-first century is a profoundly

significant turnaround of a 200-year pattern of North-South domination and its familiar expressions of colonialism, imperialism, and American hegemony. It poses major questions, which cannot all be addressed here.[1] Is the rise of East Asia, China, and India just another episode in the rise and decline of nations, another reshuffling of capitalism, a relocation of accumulation centres without affecting the logics of accumulation? Does it advance, sustain, deviate from, or halt neoliberalism? What is the relationship between zones of accumulation and regimes of regulation? What are the ramifications for social inequality? The rise of Asia has been interdependent with neoliberal globalization and yet unfolds outside the neoliberal mould. Is the lead of emerging economies a temporary deviation or does it reflect structural transformations? Is above-average growth sustainable over time? Across which dimensions does it unfold? The lead of the Global North (or the West) involved a technological lead, summed up as the industrial revolution along with second, third, and fourth waves of industrialization (see Brass and Hornsby (Chap. 38), this volume). Is the rise of emerging economies merely a matter of growth numbers (GDP-ism, as they say in China) or does it involve more profound transformations, including technological changes and sociopolitical institutions?

The US, Europe, and Japan rode the previous wave of globalization during 1970–2000, but in recent years, their lead in manufacturing, trade, finance, and international politics has been slipping. The US set macroeconomic rules through the Washington consensus, in trade through the World Trade Organization (WTO), in finance through the IMF and the US dollar standard, and in security through its hegemony and formidable military. Each of these dimensions has been out of whack for some time. The old winners are still dominant in several domains, but in production and services, education and demography, the advantages are no longer squarely with the old winners. In several respects in the maelstrom of contemporary globalization, the incumbents have become conservative forces. Compare the 1980–2000 era of neoliberalism and the Washington consensus and the twenty-first-century profile of emerging economies. The twenty-first-century momentum is markedly different from twentieth-century globalization and involves a new geography of trade, a shift in the organization of market economies towards state-led capitalism, weaker hegemony, and growing multipolarity.

Hence, there are now three sets of relations to consider. First, between the *core and semiperiphery*, or between incumbents and new forces; second,

[1] These questions are addressed in Nederveen Pieterse 2018. This article draws on some chapters in this book.

relations between *the semiperiphery and periphery*, East-South or South-South relations, such as between China and Africa and Latin America, which is the theme of a fast-growing literature; and third, relations *within* semiperipheral countries, between industrial and agro-mineral sectors, between rich and poor, and between urban and rural populations (Nederveen Pieterse and Rehbein 2009).

Phases in the Rise of Emerging Economies

The rise of emerging economies is the most obvious and widely discussed pattern change in the twenty-first century. It shows a steep upward curve during the noughties, a downturn after 2009 and rollercoaster trends since then. Since the early 2000s, the rise of emerging economies has gone through several phases, interacting with wider changes in the world economy. Thus, the reasons why emerging economies are important changes over time, their rank order changes over time, and their significance will continue to fluctuate over time.

So far, four phases of twenty-first-century globalization have unfolded: (1) High growth of EMs and the commodities boom of 2003–2013; (2) the crash of 2008 and recession in the US and Europe, followed by slowdown in EM; (3) from 2011, recovery in the US and repositioning of EMs, especially China; and (4) a trend break with Brexit and the election of Donald Trump, in which in the erstwhile champions of trade liberalization, majorities reject trade liberalization. An overview is in Table 15.2.

The boom phase ended with the 2008 crash. When the ripples of crisis also affected the EU, slowdown spread to EMs, and countries shifted to crisis management mode. Along with the shift from the G8 to the G20 came a

Table 15.2 Phases in the rise of emerging economies

Period	Headings	Keynotes
2000–2009	Boom	High growth, commodities supercycle Surge of East-South trade
2008–2012	Crash and rebalancing 2009–2010 Stimulus	Austerity in EU; QE in US, UK, Japan, EU In advanced economies 4.2% GDP In emerging economies 6.9% GDP
2013–2015	Stormy weather	EM reorient towards regional, global South and domestic markets US proposes TPP, TTIP China starts Belt and Road Initiative (BRI)
2016	Brexit, election of Trump	End of TPP, TTIP; rise of China-backed RCEP

comeback of the IMF, now with funds from EM and a commitment to increase the vote quota of developing countries. American crisis management involved bank bailouts, stimulus spending, and quantitative easing (QE, tapering off in 2014–2016). Austerity in the European Union deepened slowdown. EMs' sovereign wealth funds stepped into the liquidity gap in advanced economies and moved in and out of financial assets (see Xu (Chap. 27), this volume). China intervened with a massive stimulus programme, marking a shift from export-led to investment-led growth. China's momentous stimulus spending kept up growth but also set a precarious course of overinvestment and growing debt.

Emerging economies have gone through the crises of 1990s, have learned from the Asian crisis of 1997–1998, and experienced a fast comeback after the 2008 crisis. EM had a 'good crisis', their high growth resumed, domestic and regional markets are growing, they borrow at cheap rates, and they have mostly young populations. Asian EMs have grown faster than developed countries during every year since 1980 (except 1998). Their rise represents historical depth as well as a deeply rooted historic shift.

The end of the commodities supercycle, slower growth in China, and the tapering off of QE in 2013–2014 ushered in phase three. Commodities demand meant easy revenue and QE meant easy money; when both were no longer available, growth slowed across EMs, currencies fell, interest rates rose, and the receding tide revealed who had been bathing without trunks. With interest rates rising in the US, credit shrunk for EMs. Because their domestic financial markets are smaller, EMs rely more on foreign capital than developed countries and foreign capital is susceptible to fluctuations (due to political instability, reputation issues, and external shocks). Debt bubbles popping in several EMs, particularly in oil-exporting countries, triggered debt crises and brought back the IMF, with the usual conditionalities.

Curves to Watch

The rise of EMs is an expression of several curves. One is the demand for commodities—as an expression of industrialization and urbanization, notably in Asia and Latin America. In a structural sense, this matches the post-war decades when industrialization in the US, Europe, and Japan drove worldwide demand for commodities. It found expression in the commodities' supercycle of 2003–2009, which tapered off after the crash of 2008. In the years ahead, will demand for commodities climb back up in view of ongoing urbanization and infrastructure investment, particularly in Asia? Because it

concerns structural transformations, this is likely to continue though at a lower clip than in the past.

The second curve is industrialization. With more and more EMs entering industrial export-led growth, industry becoming more globalized and dynamic and manufactured goods becoming cheaper, is industrialization a sustainable growth path? Industrialization as a growth path requires climbing higher on the productivity ladder, or else it may lead to 'premature deindustrialization' (Rodrik 2015). Growth economies such as South Korea and Taiwan—which have emerged already—may be able to continue doing this, but are others?

The third curve is institutional transformation (e.g. Ezrow et al. 2016; Pérez Caldentey and Vernengo 2017; Nederveen Pieterse et al. 2017). Will EM be able to establish institutions of accountability and responsive governance? Major corruption investigations in China, South Korea (Hyundai, Park, Samsung), Brazil, and Latin America (Lava Jato, Odebrecht), South Africa (Gupta brothers), Saudi Arabia, and disclosures such as the Panama Papers signal that transformations are underway. Since across all emerging economies, the public sector is far more important than in the free market fundamentalism that prevailed during the period 1980–2000, the quality of state institutions is a variable of crucial importance. It is important in relation to the quality of growth and with a view to social inequality. The quality of governance has also become part of international investment monitoring (discussed later). The Asian Infrastructure Investment Bank, the BRICS, New Development Bank, the Chiang Mai Initiative, and the Asian Bond Fund all subscribe to international standards of governance; China's BRI, however, does not. This is a vulnerable point for a major historical investment programme, which is increasingly under discussion in China and internationally.

The fourth curve is ecological sustainability, which is of global significance. Are EMs able to marshal resources in sustainable ways in energy use, urban design, industrial technology, and agricultural transformation?

The trend break of 2016 with Brexit and the election of Donald Trump as US President signals another turn in the road. It reveals profound imbalances and growing socio-economic inequality in liberal market economies. The Atlantic economies, the torchbearers of neoliberalism, and the 'liberal international order' have yielded to so-called populism and unstable paths. At this stage, Nordic Europe and Northeast Asia are anchors of the world economy, China ranks as the main driver of world economic growth, and emerging economies emerge as more important than before. Since EMs are new forces, theirs is a different path dependence than advanced economies. They engage in new transnational combinations that gradually reshape global dynamics.

In sum, features of the rise of emerging economies include the following:

- Growth—developing countries have been growing much faster than developed countries (which continues in phase three at a slower pace).
- Demand for commodities in China and other EMs generated a cycle of high prices.
- Fast-growing middle classes—which involves new purchasing power and innovation and draws Western companies and brands to EM.
- Convergence—a gradual convergence of per capita incomes (which is now far off).
- A global East-South turn—developing countries no longer rely on Western institutions but on markets, loans, investment, aid from Asia and other EM.
- New institutions—such as the BRICS, New Development Bank; the Asian Infrastructure Investment Bank; China's BRI; and new cooperation and trade pacts in Asia.

Investment Horizons

The main sources of information on emerging economies are international institutions, the IMF, World Bank, and UN agencies such as UNDP, regional development banks, such as the Asian Development Bank, and international finance. International finance is the most influential driver of information that frames perceptions of emerging economies in Western media (such as *The Economist*, *Financial Times*, *Wall Street Journal*, *Bloomberg Businessweek*, *Fortune*) and to some extent, media generally.

EMs are often perceived through the lenses of the investor class, by analysts such as Jim O'Neill (Goldman Sachs), Ruchir Sharma (Morgan Stanley), Mohamed El-Erian (Pimco, Allianz), Stephen Roach (Morgan Stanley Asia), Mark Mobius (Templeton EM), consultancies such as McKinsey, PwC, BCG, Ernst &Young, and banks and insurance companies such as Allianz. Analyses are often incisive but are from international finance angles, the world viewed from Davos, often short term with a view to return on investment.

Ever since the rise of EM as an asset class, the refrain has been volatility and risk. A *Wall Street Journal* headline echoes the refrain: 'Risks lurk in emerging markets'. Yet, at the end of 2017 'Emerging market stocks and bonds are among the best assets globally on a total-return basis… the gap between yields on EM sovereign bonds and U.S. Treasuries has narrowed. Volatility has been

low', even taking into account several sovereign credit ratings trending down and numerous corporate downgrades in EM (Trivedi 2017).

Even so, by some assessments, the EM asset class has gradually lost credibility. The main indices, the MSCI EM Index, the benchmark for global equity investors in 24 economies (tracked by US$ 1.6 trillion in funds) and the Financial Times Stock Exchange (FTSE), which together involve US$ 8.5 trillion market capitalization (Charles Schwab 2017), and the JP Morgan EM Bond Index in bond markets, have not fared well since the 2008 crisis. Now other indices outperform the benchmarks, notably the environmental, social, and governance (ESG) standards: the MSCI EMF ESG Leaders Index has outperformed the MSCI EM Index in every year since the 2008 crisis (Kynge 2017).

Thus, once the easy money is gone (energy, commodities, and QE in advanced economies), investor attention shifts to institutional governance standards. In phase one, finance followed commodities trade (the Asian drivers), in phase two, finance followed QE (money from advanced economies that parachuted into developing countries), while in the current phase, finance begins to approximate some of the development and governance criteria of institutions such as the World Bank and UNDP because adoption of these standards reduces volatility. An unusual but welcome marriage of convenience of international finance and international development.

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16

China and Global Resources

Giles Mohan and Frauke Urban

Introduction

The emergence of major economies like China, India, Russia, and Brazil is, as this Handbook makes clear, likely to alter the shape of the world system for decades to come. Not only are these economies growing in absolute output terms, but as argued in the Introductory Chapter, their own middle classes are expanding rapidly and with it a demand for particular types of goods and services. As such, the implications for the production and use of natural resources from overseas, as well as the social and environmental externalities associated with this, are profound. In turn, the political reactions to manage this growth in demand and contain its negative outcomes, such as climate change, will also put strain on the international system. That said, catch-all terms like the Brazil, Russia, India, China, and South Africa (BRICS), Mexico, Indonesia, Nigeria, and Turkey (MINTs), Next 11, and so on, conceal great and important differences within and between countries (see Mahrenbach (Chap. 14), this volume). Overlying this is the specificity of resources and the industrial sectors into which they feed (Le Billon 2012). As such, we need an approach to international political economy that is sensitive to this variation.

In this chapter, we explore the relationship between China and the contemporary international political economy of global resources. First, we discuss

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the rise of China as a major investor, trading partner, and donor in natural resource-rich countries, with a specific focus on low- and middle-income countries (LMICs). The chapter then differentiates between different types of natural resources (energy, water, land, minerals) and addresses China's role with regard to the political economy of accessing these resources. We discuss the political and socio-economic implications of China as a rising power using three case studies before assessing the implications for the governance of global natural resources.

China's Development

To understand China's international resource strategy, we need to appreciate the dynamics of its domestic development trajectory. Given that China's economy is part of a single but variegated capitalist economy any 'domestic' development is necessarily the outcome of interdependence. To appreciate this interdependence, we draw on Colas and Pozo's (2011) Marxist geopolitics which follows a broadly underconsumptionist line that capitalism requires a 'spatial fix' to stave off crisis in which seeking new territories to valorise capital is central. Such expansionary logics integrate distant locations into a single market but crucially require sovereign states to provide the necessary 'social infrastructure' to expand accumulation. Such integration and expansion create class antagonism, and containing such social tensions is important for continued accumulation. Ruling elites also seek to protect their privileges while at the same time creating the conditions for the international mobility of capital, which requires access to resources and the policing of territories. Such processes of insertion into dependent developing economies have long been recognised by neo-Marxist scholars analysing Western neocolonialism (e.g. Leys 1994) and are largely repeated with China's more recent engagement. As Carmody et al. (2009) observe, the China-Zambia relationship is 'based on an (il)liberal bargain between domestic and Chinese political elites'. However, these developing countries' political elites are not simply stooges of international capital but possess agency (Mohan and Lampert 2013) that can shape and channel the nature and uses of Chinese investments (see, e.g. Large's (2009) analysis of this in Sudan). Finally, a Marxist geopolitics focusses on rent or what Colas and Pozo term 'generating value directly *from* the earth' (2011: 215, original emphasis) that is central to our concern with resource access. As these resources are fixed, then access to the subsoil or seabed is vital, as is the infrastructure linking the resource location to processing and marketing channels (Le Billon 2012).

In the context of China's expansionary capitalist logic, Ayers (2013) sets up a useful hypothesis in terms of whether there is something unique to the BRIC countries' economic policies or whether their rise is part of a wider restructuring of global capitalism. By locating China's development in global restructuring, we situate the China-Africa relationship as composed of a series of interconnected structural transformations, not least the substantial movement of global production to Southeast Asia from the mid-late 1970s, the opening up of African economies during the Structural Adjustment Programmes of the 1980s, and the current indebtedness of Western economies set against China's huge foreign reserves. However, we cannot simply read off Chinese activities in Africa from an abstract 'restructuring' thesis but must account for how specific actors on the Chinese and African sides enable these specific activities to come into being.

China's 'state-orchestrated market capitalism' (Taylor 2014) has produced consistently high growth for two decades, even though this has slowed down from 2014 as part of a natural adjustment process. Such growth requires resource inputs such that China is the world's largest user of natural resources (such as fossil fuel energy, biomass, minerals, and metal ores), the world's second largest user of freshwater resources, and the world's largest emitter of greenhouse gases (World Bank 2014). At the same time, China's domestic natural resources are limited with per capita natural resources below the world average. A key issue is energy security. Over the past two decades, China's oil consumption has risen an average of 7% per annum, much of which has been met through increased imports (Andrews-Speed and Dannreuther 2011), forcing the country to engage more closely with a number of LMICs.

This need for China to look beyond its borders for sources of energy and other natural resources resulted in the 'Going Out' strategy whereby, from the late 1990s, China encouraged outward investment and international trade (Power et al. 2012). As a spatial fix, it was, in part, necessary in sectors where the Chinese market was relatively saturated (such as dam building—see McNally et al. 2009) or where domestic sources of energy were diminishing (such as oil and gas). This aggressive internationalisation strategy was enabled by huge foreign exchange reserves and was boosted in the post-2008 global financial crisis when Western sources of credit declined while Chinese banks were relatively untouched. As such, the 2009–11 period saw something of an international spending spree by Chinese state-owned enterprises (SOEs) investing in resources and/or infrastructure projects. Latterly, China has launched the 'One Belt One Road' initiative to strengthen its trading links westwards through the Middle East, Russia, North and East Africa, and on into Europe (Price Waterhouse Coopers 2016). While not solely about

resource access, this huge infrastructure initiative aims to strengthen trade links while also providing opportunities for China's engineering and construction sectors.

Actors and Mechanisms

Commercial engagements have thus come to play a central role in China's strategy to strengthen its economy, and these motives are tied to a diplomatic agenda that bundles resource-seeking Foreign Direct Investment (FDI) (e.g. energy, minerals) with market-seeking FDI (e.g. infrastructure contracts) through complex packages which include an element of aid (Power et al. 2012). For example, more than 30% of China's direct investment in Africa is in the extractive industries. While many hypothesise that Chinese FDI is 'different' from Western FDI, we know little about the motives or host country effects. Kolstad and Wiig (2012) show that Chinese FDI tends to be found in countries with high gross domestic product (GDP), reflecting developed countries with large markets but also in LMICs with abundant natural resources. Moreover, their analysis shows there is an interaction between resource abundance and weak institutions such that 'The worse the institutions are in the host country, the greater Chinese investment is attracted to natural resources' (p. 32). They also show that oil is the most significant natural resource in such investment calculations. Importantly, when comparing China with other investing countries, these authors note that because FDI is bundled with aid and trade extracting FDI for analysis tells only a partial story, and we need to understand the trade-related, market-accessing, politically motivated and longer-term motives of Chinese engagement.

Much of the oil diplomacy is driven by the state-owned Chinese national oil companies (NOCs)—China National Offshore Oil Corporation (CNOOC), China National Petroleum Corporation (CNPC), and Sinopec (Taylor 2014). Part of the reason that Chinese firms might be attracted to poorer governed host states is that the major Western companies already dominate most oil fields. As such, Chinese NOCs have by necessity gone for a strategy of seeking access to newer discoveries where the competition is more open such as Sudan, Uganda, and Ghana (Downs 2007) but where governance is weaker. This has taken two routes—acquiring energy resources via long-term contracts as well as purchasing overseas assets, both of which seek to reduce reliance on open oil markets. Tied into these equity relations are broader diplomatic efforts designed to develop friendly linkages with oil-producing states so that deepening economic interdependence should make it harder for these supplier countries to deny China their trade in oil.

A major growth sector for Chinese SOEs and private firms is in engineering and construction, particularly roads, railways, and hydropower generation (Foster et al. 2008). The leading firms include China Civil Engineering Construction Corporation, Sinohydro, Zhong Xing Telecommunication Equipment Company Limited, and China Geo-Engineering Corporation. The types of contract and market-entry strategy vary (Chen and Orr 2009) but the most common are projects funded through Chinese government loans or financial aid to developing countries, projects funded by loans from the international lenders (e.g. World Bank), and projects obtained through bilateral trade agreements. The Chinese now have major infrastructure projects in 35 African countries, most funded by the ExIm Bank and the China Development Bank (CDB; Downs 2011; Sanderson and Forsythe 2013) at 'marginally concessional' rates, and in many cases funded through natural resource deals; basically a 'swap' of oil or mineral for loans (Corkin 2013). If an infrastructure contract is part of the resource deal, then a range of SOEs in engineering, procurement, and so on, become involved with the Chinese state insisting that the Chinese contractor should purchase and import from China as much equipment, technology, and services as possible, which is similar to the earlier Japanese model and has implications for local content in Africa (see Heron (Chap. 10), this volume).

Impacts: The Political Ecology of the Asian Drivers

So far, we have discussed the structural conditions that have necessitated China's global resource strategy as well as the key actors and mechanisms for accessing these resources. Here, we want to assess the operation of these strategies and their impacts. The Asian Drivers framework we use (see Table 16.1) distinguishes different channels of impact transmission, the distinction between complementary and competitive impacts, and between direct and indirect impacts. These channels are contingent and change over time, and vary in significance depending on such things as resource endowment, trade links, and geostrategic significance. Six key channels stand out in importance: trade links, investment flows (FDI and portfolio investments), aid, governance, flows of migrants, and environmental spillovers. As a heuristic, it is also important to stress that these channels are clearly not discrete.

In each of these channels of interaction, there will be a mixture of complementary and competitive impacts. In some cases, for example, the export of fabrics from China to Africa may feed productively into a vibrant clothing and textile value chain; in other cases, it may displace a country's exports and

Table 16.1 A framework for assessing the impact of China on LMICs

	Impacts			
	Complementary		Competitive	
Channel	Direct	Indirect	Direct	Indirect
Trade	e.g. Chinese capital goods which enhance productivity	e.g. China's growth creates global demand which benefits LMIC exporters	e.g. Chinese consumer goods displace locally produced goods	e.g. a trade deal favouring Chinese goods in third markets negatively affects African exporters
Investment	e.g. Joint ventures in a sector that would otherwise fail	e.g. Boost LMIC economy through linkages	e.g. Repatriation of profits	e.g. Creation of new investment banks weakens Bretton Woods Institutions
Aid	e.g. Chinese grants for much-needed infrastructure	e.g. China's engagement reduces LMICs reliance on Western donors	e.g. Chinese 'aid' used to favour Chinese SOEs	e.g. Support for authoritarian leaders undermines LMIC development
Governance	e.g. China's 'non-interference' policy allows recipient states to determine own development priorities	e.g. The 'China model' provides alternative development scenarios	e.g. China's support of unaccountable regimes undermines democracy	e.g. China's centralised authority legitimises LMICs lack of political reform
Migrants	e.g. Migrants bring capital and skills that are lacking	e.g. Chinese business migrants 'crowd in' other migrant SMEs	e.g. Migrants operate in unskilled sectors which displaces LMIC businesses	e.g. Chinese migration excites xenophobia which affects all migrants
Environment	e.g. Cheaper solar technologies	e.g. China's 'greening' of its economy contributes to mitigating climate change	e.g. Chinese firms produce higher levels of pollution	e.g. China's domestic industrialisation effects climate change which negatively impacts on LMICs

Adapted from Kaplinsky (2008)

production for the domestic market. However, these effects are not just felt at the national level but affect groups within countries differentially. For example, cheap clothing imports from China may displace clothing and textile workers but cheapen wage goods and hence reduce wage costs for producers in other sectors. These impacts on a complementary-competitive axis may also change over time, and most importantly, they will vary for different classes, regions, and groups within economies. The complementary-competitive axis is generally quite well recognised and understood. Less widely acknowledged is the distinction between direct and indirect impacts, partly because indirect impacts are difficult to measure. Indirect impacts occur in third country markets and institutions. For example, China's trade with the US may open or foreclose the opportunities for African economies to export into that market. As in the case of the complementary/competitive access, the impact of the direct and indirect impacts can be gauged either at the country level or at intra-national levels.

Yet impacts are not just conditioned by the needs of the Chinese actors 'driving' this process but are realised relationally through the ways in which these channels interact with African states and societies. The idea of 'Asian Drivers' implies a structural determination in which the Asian economies possess the power to do the 'driving'. Such a political economy tends to reinforce the Asian nation state and the global as the main spatial registers. Ong (2008: 120) notes that such political economy 'privileges the macro-level … (whereas) … We need to view space as multiple and contingent, always shifting in response to flows and processes of situated articulation and disarticulation'. Rather, there is no linear causality linking, say, the imperatives of capitalism and outcomes on the ground since a 'constellation of interacting elements co-produces new spaces' (Ong 2008: 120). Critical here is the nature of the state in which the investment occurs. Capital is fragmented so that state activity and politics cannot be homogenised by reducing them to the needs of a 'unitary' capital. Similarly, international capital is never completely 'external' since it combines with fragments of local capital (Ferguson 2006). Each type of firm has different levels of engagement with local capital, the state, and society, and we explore these differences and their implications through the case studies.

Additionally, the impacts are shaped by the specifics of the resources we are examining. While some minerals, for example, share common features such as their bulkiness, need for refinement and so on, it is unhelpful to lump all natural resources together. Some are point source resources lying beneath the earth's surface like oil, some are renewable if properly managed like forests, whereas others are non-renewable like natural gas. Others, like water, can be

harnessed for hydropower and used to generate electricity multiple times in the course of one river catchment, whereas, when water is used for industrial processing, it may return to the water cycle in a much-polluted form. For all these complex reasons and more, it is important that we specify the types of resources under consideration.

Cases

Given that the drivers, channels, and impacts are project specific and are mediated by both the political conditions in the recipient country and the specific materiality of the resource concerned, we illustrate these general principles with three case studies. These cover different resource sectors (hydropower dams, oil and gas, and mining) and geographical regions (South East Asia, Sub-Saharan Africa, and Latin America).

Hydropower in Cambodia

The Kamchay Dam is Cambodia's first large hydropower dam, and construction started in 2006 and electricity generation began in late 2011. It was much needed in a country with very low electrification rates, heavily dependent on energy imports, and a shortage of generation capacity. The Department of Environment in Kampot Province, where the dam is located, claims that the dam could supply up to 60% of Cambodia's energy demand, at least in the wet season when water levels, and so generating capacity, are highest. The expected annual output is 498 GWh, but in the dry season, the generating capacity may be as low as 60 MW, which is less than a third of the nameplate capacity of 200 MW (NGO Forum 2013).

The dam cost an estimated US$ 280 million and was financed by China ExIm Bank as part of a US$600 million aid package to Cambodia. The concessional loan from ExIm Bank has to be repaid at a 6% interest rate (International Rivers 2010), while the construction contract between Sinohydro and the Cambodian government is a Build, Operate, Transfer contract (BOT). Under this agreement, Sinohydro will transfer the ownership of the dam to the Cambodian government after 44 years, in 2050. Under the BOT contract, Sinohydro is responsible for managing and operating the dam, as well as dealing with local impacts including compensation, dealing with complaints, and implementing mitigation measures. This is in contrast to most Chinese dam projects, which are turnkey contracts, whereby the

facility is handed over to the recipient government on completion of construction.

The dam is located on the Kamchay River in Bokor National Park, which is the habitat of endemic and rare species. It is reported that the dam and the reservoir have flooded 2015 ha. of protected forest (NGO Forum 2013). Under Cambodian law, development projects such as dams are required to have an Environmental Impact Assessment (EIA) in place and approved before the construction process begins (Middleton 2008; NGO Forum 2013). However, at the Kamchay dam, the EIA process started late, and the EIA approval was in fact granted seven months after the inauguration of the dam (International Rivers 2013; NGO Forum 2013). Reports suggest that the content of the EIA was of poor quality and that few mitigation measures included in the Environmental Management Plan have been implemented (NGO Forum 2013). Sinohydro has set aside a budget of US$ 5 million for implementing mitigation measures, but four years after the dam was commissioned, it was untouched and cannot be accessed by Cambodian government authorities. This was due to uncertainties about the state procedures to use the funds, unclear responsibilities for environmental mitigation between Sinohydro and the local government, as well as lack of local expertise on environmental management and impact mitigation.

No resettlement has taken place as the affected local communities are living downstream of the dam. However, the dam has had significant impacts on the livelihoods of about 22,000 people who live in the area directly affected by the dam. The bamboo collectors are the biggest group that has been adversely affected by the dam as they collect bamboo to make baskets which are then sold on the local market in Kampot. Most of the bamboo collectors do not have any other sources of income, many do not own any land or assets, and most of them have low literacy rates and can therefore not easily move on to more skilled jobs. It is estimated that they lost about 50% of their daily income compared to before the dam (Grimsditch 2012). While the villagers have found another smaller bamboo forest site that is further away and now belongs to Sinohydro, Sinohydro periodically bans bamboo collection. This means that the villagers do not have any income for several weeks and have instead started borrowing money from micro-credit institutions.

Another group of people who are negatively affected by the dam are the fruit sellers who depend on income from tourism. Most of them buy fruits from local plantation owners and sell them at the Tuek Chhu riverside resort, which used to be popular with tourists, mainly from Phnom Penh. Since the dam has been built, the river is mostly dry in the dry season and to some extent also in the wet season. Water is only released sporadically by Sinohydro

in a pattern that is unclear to both locals and authorities. As the river is often dry, the tourist numbers have declined by about 80%, which also means a sharp decline in income for those dependent on tourism (NGO Forum 2013).

Despite these negative impacts, there are some people who are better off with the dam, namely the durian and fruit tree plantation owners who benefit through flood control. Some of them received compensation from Sinohydro for assets that were lost due to dam construction. Sinohydro compensated the affected families for lost trees. Ironically, some villagers who live just next to the Kamchay dam still do not have access to electricity as it is being exported to Phnom Penh. It is reported that only about a third of villages around the Kamchay dam have access to electricity from the dam, and out of these villages only about 15–20% of households have access to electricity. Nevertheless, the price of electricity has been reduced but not as much as initially promised by Sinohydro (Middleton 2008).

Oil and Gas in Ghana

The second case is a gas processing plant that was built in the Western Region of Ghana by the Chinese SOE, Sinopec. It treats raw gas from the offshore Jubilee Oil Field and has a capacity to process 150 million standard cubic feet of gas, while a 120-kilometre pipeline transports the treated gas to the Aboadze power station. In order to understand this project, we need to analyse the wider political economy of Ghana's oil industry. A key moment came in 2010. Kosmos Oil, one of the firms that discovered Ghana's offshore oil, had been looking to sell a significant stake in their Ghana operations and ExxonMobil emerged as the front runner. But in the summer of 2010, the Chinese SOE CNOOC entered as a serious rival to ExxonMobil and by October had made a US$ 5 billion bid for Kosmos' assets. After the initial bid by CNOOC was rejected, CNOOC entered an agreement with BP and made another offer to Kosmos that was also rejected in March 2011. Shortly after the CNOOC-BP bid was rejected, the Chinese changed their strategy and offered the Ghana government a US$ 3 billion Master Facility Agreement (MFA) on a non-concessional basis through the CDB. This loan facility was dedicated to the Western Corridor Gas Infrastructure Development Project for construction or rehabilitation of roads, ports, and oil and gas processing. The loan was to be paid at London Interbank Offered Rate (LIBOR) plus 2.95% with an upfront fee of 0.2% and commitment fees of 1% per year, which are not particularly favourable terms and belies the claim that China buys its way into Africa with cheap credit. Moreira (2013: 156) argues that the CDB loan was

clearly about oil supply but equally 'to create goodwill in preparation for possible future Chinese NOC business opportunities'.

In March 2012, a commercial agreement between Ghana National Petroleum Corporation (GNPC) and China International United Petroleum & Chemicals Co. (UNIPEC) committed Ghana to supply crude oil to the Chinese to repay the US$ 3 billion loan. What the Chinese did was shift from attempts to secure the areal access to oil, through holding equity shares in the blocks, to a strategy to acquire the oil volume through long-term loans. Spatially this meant tying together the offshore and onshore because in order to acquire offshore oil, the Chinese agreed to invest in the onshore plant to process the surplus gas. While offshore oil appears quintessentially enclaved, with technologically advanced rigs far out to sea, it is connected to national territories in numerous ways (Appel 2012). Not only do offshore oil complexes touch land, through such things as pipelines, transportation services, or pollution, but the infrastructure loans also mean that the effects of offshore oil extraction extend in multiple directions and into other sectors (Phillips 2017).

The CDB loan means at least three Chinese firms are involved in Ghana's oil and gas sector. Sinopec secured the contract to construct the gas infrastructure under a US$ 750 million subsidiary agreement as part of the MFA. SAF Petroleum Investments is a subsidiary of Sinopec, which procures items required for the gas project and resells them to Sinopec. Finally, *UNIPEC* is another subsidiary of Sinopec and is China's largest international trade company, including trading in crude oil and liquefied natural gas (LNG). Under the MFA, UNIPEC secured an off-taker contract to lift Ghana's share of crude from the Jubilee Field, in which Ghana is committed to supply 13,000 barrels of oil daily for 15.5 years to pay the US$ 3 billion loan. This is a win-win-win situation for China; they get the commercial loan repaid, they get the oil, and they get contracts for their construction and procurement firms.

The infrastructure loan raised a series of issues, not least that Ghana's level of national debt skyrocketed during the National Democratic Congress's (NDC) term of office, between 2008 and 2012, in which the loan was secured. Playing into this general indebtedness was the suspension of part of the Chinese loan in 2014. Over the summer of 2014, it was announced that only half the loan would be used, and that of the 12 projects only 2 would go ahead. It transpired that the issue was the price of oil that was agreed to pay the loan. Not only did the Government of Ghana pay high commitment fees, but the Chinese were working on a fixed rate of US$ 85 per barrel whereas the price at the time was over US$ 100. The finance minister commented that the Chinese are unwilling to renegotiate and so Ghana was losing at least US$ 15 per barrel through the repayment schedule. In August 2014, President

Mahama visited Beijing cap in hand to renegotiate though the Chinese refused to agree to new terms at that point. In 2016, the negotiations opened up around releasing the unused portion of the loan but this time secured against future gas sales.

Mining in Peru

Most analysis of China's internationalisation has focussed on Africa, yet Latin America is also significant for trade and investment (Dollar 2017). Around 7–8% of imports to the region come from China, largely manufactured goods. The region exports minerals, oil, and agricultural products to China and those countries that export extensively to China had the highest growth rates in Latin America in the first decade of the new millennium. Compared to most African countries, Latin American countries are more middle income and relatively powerful states, so arguably they have greater negotiating potential with China. As such, this is not a 'classical' dependency relationship since China is heavily focussed on manufacturing rather than the services of mature Western economies and has a lower Human Development Index (HDI) than Peru (Gonzalez-Vicente 2012b). Civil society in Latin America has also been active and relatively influential which has affected how Chinese investments play out. That said the emphasis on extractive sectors has re-emphasised the role of the state after decades of neo-liberalism because states grant access to subsoil concessions and so land and property rights become key.

While much of the focus of China's resource diplomacy has been on oil, mining investments are critical to much of this internationalisation. Around 24% of China's outward FDI is in extractive sectors (Gonzalez-Vicente 2012a). As we saw in Ghana, Chinese resource companies are capable of combining extraction deals with major infrastructure investment, in countries where infrastructure is a priority. In terms of the destinations for this mining FDI, most is invested in mature economies (notably Australia and Canada) where deposits are large and where the political regimes are stable. But Latin America is an increasingly significant destination for Chinese investment, and, here, we focus on Peru.

The current minerals regime in Peru dates back to the Fujimori period when neo-liberal policies resulted in much privatisation and liberalisation in the early 1990s. This saw foreign companies entering the mining sector including, as we see, some pioneering Chinese firms. The relationship between Peru and China grew gradually until the late 2000s when a Free Trade Agreement was signed between the countries in 2009, and China became a

member of the Inter-American Development Bank. This saw accelerated investment and trade such that China is now Peru's second largest trading partner, with 80% of Peru's exports to China being minerals.

Peru's liberal mining regime saw Chinese firms acquiring existing non-Chinese-owned mines and reveals their preference for market mechanisms. In line with the rest of the sector and the Latin American region, Chinese mining firms have not invested in the most weakly governed states. This contrasts somewhat with Africa where Chinese firms have dealt with Sudan, Angola, and Democratic Republic of the Congo (DRC). So in Latin America, China is in line with the mining industry's political risk perceptions more generally. Chinese mining firms either sell ore on the world market or vertically integrate supply into China's metallurgical industry. Hence, it is the Chinese firms' privileged access to China's consumers and distribution networks that gives them competitive advantage and sees them breaking away from quasi-monopolistic control of iron and steel markets, which is not dissimilar to their strategy for acquiring equity oil. One particular case of the Shougang Corporations' investment in the Marcona iron ore mine is emblematic of an enclavic investment. Shougang was a pioneer and entered Peru in 1992 before China's 'Going Out' strategy kicked in. Shougang is incorporated in the Beijing Municipality so, while it is an SOE, it is relatively independent of the central Chinese Communist Party, which tends to play a significant role in the larger 'national champions' (Taylor 2014). As such, Shougang was able to determine corporate strategy quite independently and also benefitted from good political connections in China.

Peru's liberal mining laws made it easy to invest, with no requirement to add value in-country. Around 60–65% of Marcona's output goes to the Chinese market. The contract was negotiated behind closed doors and questions were raised at the time around the legality of the deal. The Peruvian government has consistently ceded lands to mining operations leading to dispossession of farmers. Indeed President Garcia, who governed until 2011, berated the peasant farmers who stood in the way of such investments as being 'anti-capitalist, against investment, unable to explain how a leap to more development can be achieved with poor agriculture' (2007, cited in Gonzalez-Vicente 2012b: 119).

Part of the concession agreement gave Shougang responsibility for providing water and electricity in the municipality. This gave the company considerable freedom since it is not accountable to the municipality yet is the major employer in this remote region of Peru. An interviewee from Gonzalez-Vicente's (2012b: 119) research captured this well:

> Their (Shougang) machinery is old, their buses are 30 or more years old and they do not change them. They provide their workers with security equipment once a year, while these are not supposed to be used for more than three months. In this sense the company is very irresponsible. They control the water, energy production and energy distribution. They only provide the people with water two hours a day…The problem lies in the poor management of the people they have there. When the general manager arrives they are eager to show how much money they have saved, without taking into account how that can damage their operations in the long term.

The Marcona mine is very much an enclave in which the Peruvian state has effectively ceded sovereignty to Shougang. The company operated split salary scales offering newer workers lower salaries. When union opposition ensued, Shougang fired the protest leaders. Shougang has been relatively belligerent with the Peruvian state, and, in 2008, when the Congress threatened to reopen the corruption inquiry surrounding the original deal, the company's general manager submitted a letter to Congress stating that 'This could cause a withdrawal from the projected Plan for Operations Expansion, which would affect both the Ica region and the country, and would have a negative effect on the investment decisions of other Chinese companies in Peru' (cited in Gonzalez-Vicente 2013: 52). Indeed, Shougang's pioneering role in Peru was cited by other Chinese firms as the reason they had come to the country, so Shougang's hardball negotiating stance may have some traction. Projects like Marcona have benefitted Peruvian elites, while local populations have suffered displacement and poor wages. As such, costs and benefits are very unevenly distributed and bears out Bebbington's (2015) argument that in the context of extractive industries 'spaces of company operation become governed in ways that are transnationalized and quite distinct from other subnational spaces' (p. 103).

Conclusions

The analysis of China's internationalisation and the three cases outlined earlier suggest that for resource-supplying countries, China and other rising powers have diversified sources of demand and so broken down some of the dependency on the Global North. The demand from Asia and elsewhere has clearly boosted commodity prices and demand levels, but structurally it strengthens the extraversion of these economies (Jenkins et al. 2008; see also Nem Singh and Sneyd and Enns (Chaps. 33 and 35), respectively this volume). That is, they remain suppliers of commodities and still rely on imports of manufactured goods.

This structural relationship of extraversion and the particularities of the three cases begs the question of whether Chinese investments are any different to those of other states. Clearly, China's engagement is commercially oriented and is not about aid and the attendant conditionality that has dominated development cooperation between the West and LMICs. That said, as the Ghana and Peru cases showed, these firms are profit-oriented and so play hardball in negotiations and use threats of withdrawal to get their way. The Chinese firms generally benefit from long-term finance, which affects their risk calculations, and so invest in projects with long time horizons. These are good for the recipient countries though the benefits are not evenly distributed.

It is also apparent that the developmental benefits accruing from these Chinese projects have less to do with the inherent characteristics of Chinese firms and finance packages and more to do with the host state's resource regime (Poteete 2009). Whether framed in terms of the resource curse or not, domestic political structures and state institutions are critical to determining how far benefits are distributed. In the case of Peru, the local benefits of the mining investments are limited, whereas for infrastructure investments the enhanced energy production in Ghana and Cambodia may have wider benefits, though this depends on households being on the grid.

In the short term, these projects are all quite enclavic with limited job opportunities or wider multipliers, though again this is not a peculiarly Chinese phenomenon. While we hypothesised that Latin American states may have greater bargaining power compared to their African counterparts, the cases here suggest that Chinese firms can be quite inflexible in either context, though they are becoming more attuned to domestic political structures and nuances. For development benefits to spread, states need to redistribute, but elites are unlikely to do so which is where civil society can exert some influence. Latin American states generally have quite vibrant civil societies, whereas in Africa and Asia it is a more variegated picture. However, a key issue is labour rights, and across the globe, trade union power has been eroded which when coupled with Chinese firms' preferences for non-unionised labour further undermines the ability of labour to win better terms and conditions.

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Part III

Global Crises

17

The IPE of International Currency Leadership

Mattias Vermeiren

Before the global financial crisis (GFC) hit the world economy in 2007–2008, the politics of international currency leadership was a widely discussed theme in the International Political Economy (IPE) literature. Two issues have been central to these discussions. A first issue concerns the attributes and factors that shape international currency status. While a consensus emerged among both scholars of IPE and economists that foreign confidence in the stability of the currency and the presence of open and liquid financial markets are key determinants of international currency leadership, there is less agreement about the policies and institutions required to underpin these two preconditions. In this chapter, I point to the key role of macroeconomic policy institutions. In contrast to the prevailing understanding of the pre-crisis literature on international currencies that *relatively conservative* monetary and fiscal policies are necessary to boost foreign confidence in the stability of the currency (see, especially, Walter 2006), the crisis revealed that the provider of the world's 'top currency' needs to have *relatively accommodative* macroeconomic policies.

A second issue concerns the benefits and costs associated with international currency leadership. Before the crisis, most scholars agreed that the international dominance of the US dollar conferred significant benefits and privileges to the United States, the most important of which is its structural capacity to avoid the burden of macroeconomic adjustment to balance-of-payment deficits: there was a fairly strong consensus in the literature that US

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dollar dominance bolstered the macroeconomic policy flexibility of the United States by making it more easy to attract foreign savings to finance these deficits (Andrews 2006; Helleiner and Kirshner 2009). In the post-crisis literature, some scholars have proposed 'balance-sheet perspective' on international monetary power, claiming that financial globalization allegedly put new constraints on the United States: US residents have accumulated a growing stock of foreign assets and liabilities, making the US 'external balance sheet' (i.e. balance of foreign assets and liabilities) more vulnerable to price adjustments in international currency and asset markets (Hardie and Maxfield 2016). These adjustments have entailed economic costs that have been overlooked by the pre-crisis literature on US monetary power.

In this chapter, I discuss how these two issues are linked and connected to the persistent status of the United States as the world's predominant provider of 'safe assets'—that is, simple debt instruments that can be expected to preserve their value during international financial crises (Caballero et al. 2017). The crisis showed that the market for US Treasuries—sovereign bonds issued by the US government—remained the ultimate safe haven for international investors. The institutional capacity and willingness to pursue relatively accommodating monetary and fiscal policies underpinned the continuing attractiveness of US Treasuries as safe assets, which has been a key source of the deterioration in its external balance sheet after the GFC. Nevertheless, there are no clear indications that the US external balance sheet adjustment has disrupted the US economy and constrained the structural capacity of the United States to avoid the burden of adjustment.

Macroeconomic Policy and International Currency Leadership

The GFC served to consolidate the status of the US dollar as the world's 'top' international currency. As Helleiner (2014) notes, 'the crisis not only failed to shatter confidence in the dollar but also highlighted the centrality of the dollar within the global financial system'. Despite the fact that the crisis originated in the US financial system, it even appreciated at the height of the crisis. From the perspective of recent literature in macro-financial economics, the persistence of the US dollar and its appreciation during the crisis follow from a structural shortage of 'safe assets' in the contemporary world economy (Caballero et al. 2008; Gorton et al. 2012; Gourinchas and Jeanne 2012). Safe assets are debt securities that have no credit and default risk—that is, their nominal repayment can be guaranteed. Three international developments

have generated a global imbalance between the demand for and the supply of safe assets. First, the growth in foreign exchange reserves, which swelled between 2000 and 2015 from roughly US$ 2 trillion to US$ 12 trillion, generated an increased demand by central banks of emerging market and developing countries (EMDCs) for safe assets issued by advanced market economies (AMEs; see Xu (Chap. 27), this volume). Second, there is a growing demand for safe assets from private banks and financial institutions, which need such assets as collateral to fulfil their liquidity needs in wholesale funding markets, as well as to meet new post-crisis liquidity requirements. Finally, the supply of assets with high-quality ratings issued by private and public institutions in AMEs fell sharply in the wake of the GFC.

The latter development is especially important for understanding the endurance of the US dollar as the top international currency. From the perspective of the global safe asset shortage, the international currency leader has to be the dominant supplier of safe assets. The crisis revealed that genuinely safe assets can only be produced by a state government that either issues sovereign debt securities or guarantees private assets (such as bank deposits), as the safety of highly rated assets generated by the private shadow banking system in the United States proved to be illusive when their value crashed in the wake of the collapse of the US housing bubble. Yet, not all debt securities issued by sovereigns were considered to be safe by international financial markets: when markets questioned the nominal debt-servicing capacity of several Eurozone governments, their debt securities were downgraded and lost their safety label. Due to downgrading in some of the world's largest markets for private and public assets that were considered as safe before the crisis, the global supply of genuinely safe assets more than halved from 2007 to 2011 (Table 17.1).

Table 17.1 Decline of safe assets from 2007 to 2011

	USD billion		% of world GDP	
	2007	2011	2007	2011
US Federal government debt	5136	10,692	9.2%	25.8%
Held by the Federal Reserve	736	1700	1.3%	2.5%
Held by private investors	4401	8992	7.9%	13.3%
GSE obligations	2910	~~2023~~	5.2%	~~3.0%~~
Agency- and GSE-backed mortgage pools	4464	~~6283~~	8.0%	~~9.3%~~
Private-issue asset-backed securities	3901	~~1277~~	7.0%	~~1.9%~~
German and French governments' debt	2492	3270	4.5%	4.8%
Italian and Spanish governments' debt	2380	~~3143~~	4.3%	~~4.7%~~
Safe assets	20,548	12,262	36.9%	18.1%

Source: Barclays Equity Guilt Study 2012
Note: Numbers are struck through when they lost their 'safe-haven' status after 2007

Why did the market for US Treasuries remain the ultimate market for safe assets? For the pre-crisis literature on international currencies, this remains somewhat of a puzzle: a prevailing understanding in this literature was that international currency status hinges upon a relatively *orthodox* macroeconomic policy framework: rules targeting low inflation and balanced budgets are necessary to maintain foreign confidence in the stable real value of the currency by constraining the capacity of its issuer to pursue inflationary policies (see, especially, Walter 2006). A number of prominent scholars of international currencies have argued that the United States exploited the 'exorbitant privilege' associated with issuing the world's key currency by pursuing irresponsible macroeconomic policies, which led to 'very large and sustained US federal budget deficits' that 'warn of the threat of future inflation' (Kirshner 2008: 419; see also Calleo 2009; Eichengreen 2011; Otero-Iglesias and Steinberg 2013). In terms of monetary policy, a common interpretation is that 'the Fed's quantitative easing (QE) policies have undermined its reputation as a hawkish central bank' (Otero-Iglesias and Zhang 2013). It was believed that the presence of conservative macroeconomic policy institutions in the Eurozone would be more conducive in installing foreign confidence in the stability of the euro by constraining the ability of the European authorities to similarly exploit the privileges associated with international currency leadership (e.g. Helleiner 2008; Otero-Iglesias 2014).

However, there are several reasons to believe that Quantitative Easing (QE) policies and rising fiscal deficits have been more conducive to the role of the world's dominant provider of safe assets than the more restrictive macroeconomic policies of the Eurozone. First, it can be argued that avoiding the potential of outright default is more important than minimizing the potential of partial default via inflation: the absence of default risk and the promise of nominal debt repayment are more critical in the definition of a safe asset than maintaining the stability of its real value (Gourinchas and Rey 2012; see also Schelhase (Chap. 21), this volume). This is particularly important in the market for public debt assets, which play a fundamental role in meeting the liquidity needs of private banks and maintaining the stability of the general financial system. For this reason, government default needs to be avoided at all costs: the central bank must be a lender of last resort (LLR) to the government, which is then able to guarantee the nominal repayment of its debt whenever it fails to collect sufficient tax income and risks losing access to financial markets (Fields and Vernengo 2013). So rather than undermining foreign confidence in the stability of the US dollar, the Federal Reserve's QE policies served to reassure foreign investors that it would support the creditworthiness of the US government. In contrast, the European Central Bank (ECB's) reluctance to provide

a monetary backstop to sovereign bond markets until its September 2012 decision to 'do whatever it takes' to save the euro by acting as an LLR to peripheral governments undermined the foreign confidence in the debt-servicing capacity of these governments (De Grauwe 2013).

Second, overly restrictive fiscal policies reduce the supply of sovereign debt securities that domestic and foreign investors can access: fiscal deficits are necessary to inject safe assets into the financial system, which is especially important during safe asset shortages (Caballero and Farhi 2014). Holders of foreign exchange reserves will be 'competing' with the private sector to get a hold of AAA/AA/A sovereign debt securities, so their desire for safe assets can only be satiated by highly rated governments willing to accumulate fiscal deficits and sell sovereign bonds. Nevertheless, most reforms in the Eurozone's macroeconomic policy regime—the European Stability Mechanism (ESM), the Fiscal Compact and the Macroeconomic Imbalance Procedure (MIP)—continue to be based on the view that 'fiscal discipline' is required to maintain stability in the European markets for sovereign debt and bolster the capacity of Eurozone governments to provide safe assets. As a result of these austerity policies, the Eurozone's creation of additional public safe assets stagnated as a percentage of world GDP since the start of the global financial and euro crisis (Fig. 17.1). Fiscal deficits in the United States, on the other hand, enabled a sharp rise in the supply of US pubic debt and safe assets as a percentage of world GDP.

Finally, there is also a practical reason why conservative macroeconomic policies can be less favourable to international currency status than

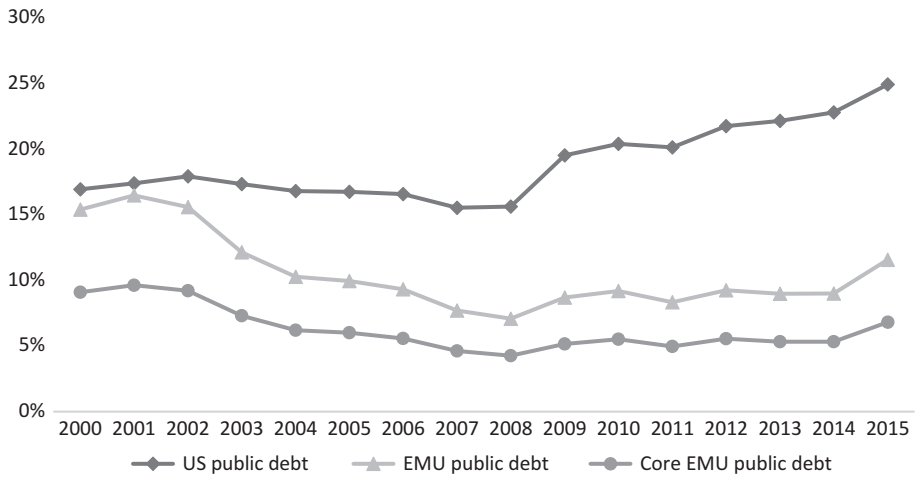

Fig. 17.1 Public debt as a percentage of world GDP. (Source: US Bureau of Economic Analysis; Eurostat; IMF WEO Database)

accommodating policies: by repressing domestic demand, restrictive monetary and fiscal policies will usually lead to a surplus of the current account (trade) balance (see also Germain and Schwartz 2014). This will constrain the ability of the international currency leader to meet foreign demand for safe assets, as current account surpluses go hand in hand with financial account deficits—especially deficits on the *debt securities balance* as the most important component of the financial balance: in layman's terms, a country or region with current account (trade) surplus typically buys more debt securities from the rest of world than it sells to it. So from the perspective of the safe asset shortage, current account deficits are necessary to allow the international currency leader to be a large net international seller of safe assets. A comparison of post-crisis balance-of-payments dynamics between the United States and the Eurozone provides a striking illustration. The Eurozone *intensified* the global safe asset shortage, as restrictive macroeconomic policies contributed to a growing current account surplus. Table 17.2 shows that the Eurozone's debt securities balance moved from a surplus to a huge deficit from 2008 to 2015; hence, it became a *net purchaser* of debt securities from the rest of world. The shift of the Eurozone's current account balance from a deficit in 2008 to a major surplus in 2015 has been responsible for this transition. In contrast, the US current account deficit remains sizeable, implying that it continues to accumulate net foreign liabilities to finance its current account deficits. As such, the United States remains the largest net seller of safe assets in the world economy, which bolstered the international status of the US dollar.

Table 17.2 Balance of payments and key components, in billions of USD

	2008	2009	2010	2011	2012	2013	2014	2015
United States								
Current account	−691	−384	−442	−460	−447	−366	−392	−463
Financial account	731	231	437	516	441	391	287	195
Direct investment	−19	−160	−95	−183	−135	−118	−136	31
Portfolio investment	808	−19	621	226	498	31	119	97
Debt securities	643	−174	521	110	363	381	396	478
Other investment	−21	417	−101	453	89	477	246	36
Eurozone								
Current account	−172	19	31	32	162	287	320	359
Financial account	467	−28	70	153	−150	−465	−491	−305
Direct investment	−334	−66	−83	−139	−14	78	−79	−121
Portfolio investment	354	349	110	454	181	5	−150	−223
Debt securities	362	294	−9	202	45	−12	−279	−394
Other investment	418	−239	53	−142	−256	−522	−199	146

Source: US Bureau of Economic Analysis; ECB; OECD

Benefits and Costs of International Currency Leadership

The large current account deficit of the United States is not only a reflection of its role as the world's dominant supplier of safe assets. It is also a manifestation of its 'structural power' to avoid the burden of macroeconomic adjustment, which has two dimensions (for a recent overview, see Vermeiren 2014). First, the dominance of the US dollar has provided the United States with a unique 'power to delay' the adjustment of its external deficits. The US dollar's global role translates into a sustained foreign demand for US dollar assets, providing a constant pool of cheap credit that enables the United States to finance its large fiscal and current account deficits at low interest rates (Cohen 2006; Helleiner 2006). Accordingly, the primacy of the US dollar has enabled the United States to pursue macroeconomic policies that elsewhere would have elicited 'a withering "disciplinary" response from international financial markets' (Kirshner 2008: 424).

This capacity to delay macroeconomic adjustment—which was famously criticized as an 'exorbitant privilege' by Valérie Giscard d'Estaing (the French Minister of Finance) in the 1960s—is also supported by the asymmetric structure of its net international investment position (NIIP). Because the United States plays a key role as a supplier of safe assets in the world economy, the majority of foreign investments in the US economy take place as passive holdings of bonds and loans on which it pays relatively low interest rates. On the other hand, the majority of US foreign holdings take the form of foreign direct investment and holdings of equities that are riskier but also receive higher returns. So despite its negative NIIP (i.e. despite the fact that its accumulated foreign liabilities exceed its accumulated foreign assets as a result of persistent current account deficits since the 1980s), the United States typically earns a positive net income flow from the negative balance of its foreign assets and liabilities (Gourinchas and Rey 2007; Norrlof 2010; Beckworth and Crowe 2016). There is a remarkable contrast with China, whose international creditor position (in the form of large positive NIIP) has coincided a negative net income balance (Fig. 17.2). Because the net foreign liabilities of the United States have not increased as much as one would have expected on the basis of its accumulated external deficits, the asymmetrical structure of its NIIP has reinforced its power to delay external adjustment.

Second, the United States has a unique 'power to deflect' the burden of macroeconomic adjustment through the 'dollar exchange rate weapon'. On the one hand, US authorities' encouragement or neglect of a US dollar

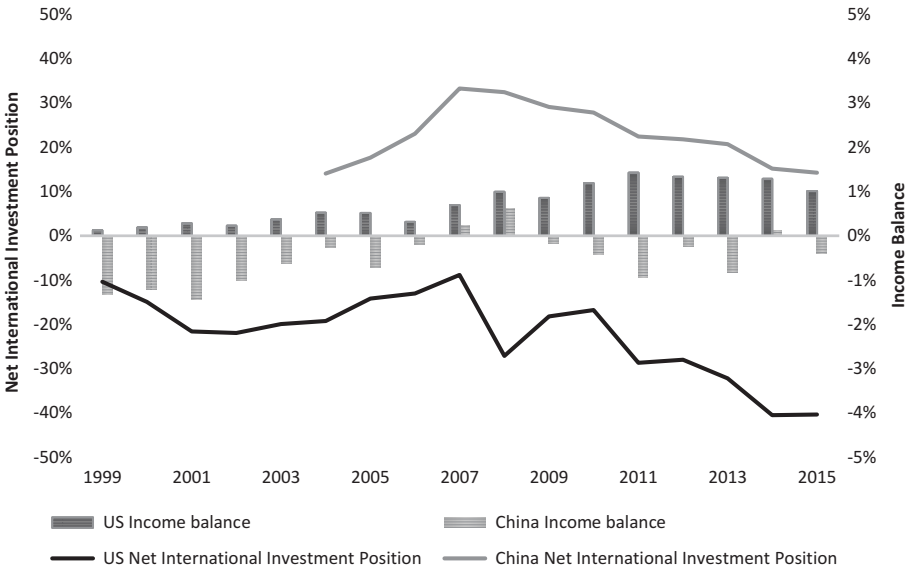

Fig. 17.2 NIIP and income balance of the United States and China (percentage of GDP). (Source: US Bureau of Economic Analysis; SAFE)

depreciation can induce foreign governments with a significant trade exposure to the dollar area—comprising not only the US economy but also all other countries that have pegged their currency to the dollar—to pursue expansive macroeconomic policies in order to offset the loss in export competitiveness and the downturn in exports associated with the appreciation of their currency. This dollar weapon is based on the asymmetric exchange rate vulnerability of the US economy, which is very large and relatively closed and, therefore, less sensitive to fluctuations in the exchange rate than its smaller and more open trading partners (Henning 2006; see also Webb 2006). On the other hand, a depreciation deflects the burden of macroeconomic adjustment onto the rest of the world by reducing the real value of its foreign liabilities. Because its foreign assets are predominantly denominated in foreign currencies (about 67%) and its foreign liabilities are overwhelmingly denominated in US dollars (about 80%), a decline in the US dollar's exchange rate typically leads to an improvement of its NIIP (Gourinchas and Rey 2007; Norrlof 2010; Beckworth and Crowe 2016).

An interesting recent intervention by Hardie and Maxfield (2016) sheds a new conceptual and empirical light on debates about consequences of international currency leadership. The core of their argument is that the IPE literature on international monetary power has ignored potentially *negative*

'valuation effects' on the US external balance sheet (i.e. its foreign assets and foreign liabilities) and US NIIP associated with the growth in gross cross-border capital flows and the centrality of the US financial system in the world economy:

> Financial globalization, as measured by the increased size of countries' external balance sheets, has grown to a point that the analysis of international monetary power must expand to accommodate the implications. While the net investment flows in the US current account contribute to the US's ability to delay adjustment costs and grow "beyond its means", gross valuation changes in US international assets and liabilities have become so large they challenge the current account deficit as a contributor to changes in US international indebtedness. (2016: 605–606)

Changes in the valuation of US external assets and liabilities have led to a massive deterioration of the US NIIP after the eruption of the GFC, as Fig. 17.3 shows. What are the main sources of these valuation changes? The first source is related to the asymmetric structure of its NIIP: because the United States is 'short' in bonds (i.e. bonds are a higher percentage of liabilities than assets) and 'long' in equity and FDI (i.e. equity and FDI are a higher percentage of assets than liabilities), its NIIP deteriorates when the market

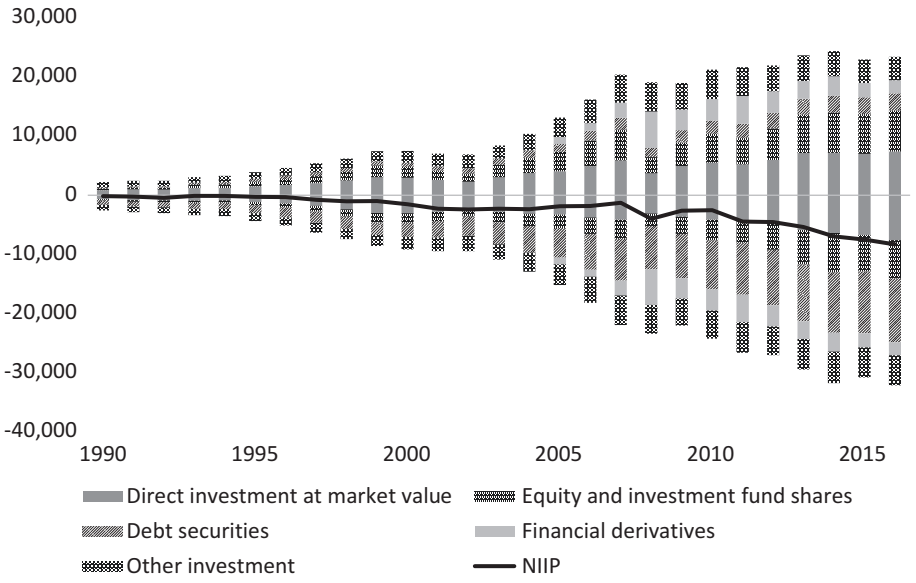

Fig. 17.3 US external balance sheet and NIIP in billions of USD. (Source: US Bureau of Economic Analysis)

value of 'safer' US bonds—especially US Treasuries—rises relative to the market value of 'riskier' equity and FDI. This dynamic is connected to role of the United States as a supplier of safe assets to the rest of the world: when risk aversion rises in global financial markets and investors seek 'safe havens,' the deficit in the US NIIP rises. This role is also linked to the second source of the deterioration in the US NIIP: foreign demand for US dollars and dollar assets contributed to the nominal exchange rate appreciation of the US dollar since 2007, which increased the real value of its liabilities while reducing the real value of its foreign assets: as US foreign liabilities are overwhelmingly denominated in US dollar and its foreign assets predominantly in foreign currency, relative adjustments in the value of the US dollar against other currencies change the relative value of US assets and liabilities. The appreciation of the US dollar is also related to the attractiveness of US equity markets, which performed very well compared to foreign equity markets during this period and worsened the US NIIP by boosting the value of US equities vis-à-vis foreign equities. Given that all three sources of the NIIP deterioration involve financial market-driven value adjustments, Hardie and Maxfield (2016) note the paradoxical nature of the external balance sheet 'vulnerability' of the United States:

> Considering all three sources of valuation change and the performance of the US external balance sheet, the overall picture is that US experiences valuation gains when US financial markets and the US dollar underperform and loses when they outperform. There is a clear irony here: the US dollar's key currency status depends in large measure on the attractiveness of US financial markets, but this US gain is linked to those US markets underperforming international counterparts.

These dynamics reflect the external balance sheet consequences of what Gourinchas et al. (2010) have called the 'exorbitant duty' of the United States related to its role as a 'global insurer' in international financial markets: given that the United States holds a leveraged position long in risky assets and short in safe assets relative to the rest of the world and—*in normal times*—earns high returns on its position (i.e. the 'exorbitant privilege' of the United States), the United States experiences large capital losses *in times of international financial stresses*: 'Between the fourth quarter of 2007 and the third quarter of 2015, the US external valuation losses represent $4.13 trillion, or a staggering 22.9% of 2015 US GDP; a s a result, the bulk of the US cumulated valuation gains since 1952, which reached 35% of US GDP at their peak in 2007, have dissipated' (Gourinchas and Rey 2016). As such, the status of being the

world's dominant supplier of safe assets has exposed the United States to external shocks to its external balance sheet.

What are the implications of these shocks to the US external balance sheet for our understanding of US international monetary power? According to Hardie and Maxfield (2016: 588), 'the decisions of largely private financial market participants, reflected in the size and composition of external balance sheets, are increasingly likely to reduce the autonomy to pursue unconstrained policy and can increase the economic costs even as adjustment is delayed and also to diminish the ability to deflect the costs of adjustment'. There are two dimensions to their argument. First, valuation effects on the US external balance sheet can have negative consequences on the real economy through 'wealth effects'—that is, effects of changing value of (financial) assets on consumer and corporate spending. As a number of IPE scholars have argued (e.g. Schwartz 2009; Vermeiren 2014), rising asset prices—in US stock markets (especially during the 1990s) and the US housing market (especially during the 2000s) —were highly instrumental in boosting finance-led growth in the US economy. The question is whether similar wealth effects result from negative valuation effects on the US external balance sheets. These valuation changes are usually interpreted as a 'wealth transfer' from the United States to the rest of the world (see also Gourinchas et al. 2010; Gourinchas and Rey 2016). So just as foreign capital flows into the United States can have a *positive* impact on economic growth by boosting the value of domestic US assets, these *negative* wealth transfers could *depress* economic growth during times of international market uncertainty.

Second, Hardie and Maxfield (2016) argue that financial globalization and the resulting external balance sheet exposure of the United States have constrained its 'monetary statecraft'—that is, its ability to purposely use monetary tools to extract gains from foreign state and non-state actors (see Armijo and Hveem (Chaps. 2 and 3), respectively this volume). On the one hand, post-crisis dynamics reveal that the capacity of the United States to manipulate its currency and promote a weakening of the US dollar is clearly limited. As noted earlier, the 'flight-to-quality'—based on buoyant foreign demand for 'safe' US dollar assets and a repatriation of foreign investments by US investors—fuelled a significant appreciation of the US dollar. While the Federal Reserve's QE programmes partly neutralized the impact of 'fight-to-quality' to US dollar, the tapering of these programmes and the first tepid hikes in the federal funds rate brought the US dollar to new heights. On the other hand, the growth in the US external balance sheet resulted 'largely from the activities of private financial institutions that have intensified the spider web of cross-national financial counterparties,' making it more difficult and even impossible for the US

Federal Reserve and US government 'to select for nationality in providing liquidity during times of crises' (Hardie and Maxfield 2016: 602). While its liquidity programmes were crucial in securing US financial interests by stabilizing international financial markets, the Federal Reserve did not discriminate between US and non-US banks and financial institutions and in the process increased the international exposure of its balance sheet: 'The Federal Reserve lent directly to banks regardless of nationality, accepted as collateral securities of considerably more questionable creditworthiness than previously, and instituted swap lines to the central banks of all significant countries in the international financial system' (2016: 602).

Scholars of international monetary power are well advised to take heed of these observations; they should not only focus on current account imbalances as sources of external adjustment but also on external balance sheets and the implications of valuation changes. At the same time, however, there are several reasons why the post-crisis dynamics in the US external balance sheet do not necessarily imply that these valuation changes have fundamentally disrupted the US economy and constrained its capacity to avoid the burden of adjustment.

First, it remains conceptually unclear whether the post-crisis deterioration of the US NIIP unambiguously reflects international 'wealth transfers' from the United States to the rest of the world if we take the international ownership structure of US and non-US assets into account. Because US financial assets (stocks, bonds, etc.) are still predominantly owned by US residents, and non-US financial assets are evidently mostly owned by foreigners, it is questionable that a rise in the value of US financial assets vis-à-vis non-US assets should be seen as a wealth transfer out of the United States. Table 17.3, which presents estimations of total financial (US and non-US) assets held by US residents and non-US residents in 2012, provides a numerical illustration: if

Table 17.3 Distribution of world financial assets between the United States and non-US residents

	US assets	Non-US assets	Total assets	% world total
US residents	US$ 58.2 tr	US$ 16.0 tr	US$ 74.2 tr	33
Non-US residents	US 17.8 tr	US$ 133 tr	US $ 150.8	67
	Scenario 1: US assets appreciate by 10%			
US residents	US$ 64.02 tr	US$ 16 tr	US$ 80.02 tr	34.5
Non-US residents	US$ 19.58 tr	US$ 133	US$ 152.58 tr	65.6
	Scenario 2: Non-US assets depreciate by 10%			
US residents	US$ 58.2 tr	US$ 14.4 tr	US$ 72.6 tr	34.5
Non-US residents	US$ 17.8 tr	US$ 119.7 tr	US$ 137.5 tr	65.5

Source: US Bureau of Economic Analysis; Federal Reserve Flow of Funds; McKinsey Institute

there is a nominal appreciation (*depreciation*) of US (*non-US*) financial assets, the share of world financial assets held by US residents would *increase* from 33% to 34.5%—*even though* the US NIIP in both scenarios would deteriorate from US$ 3.6 trillion to US$ 5.5 trillion. Evidently, the reason for this seemingly paradoxical result is that domestic assets are included in the calculation. This is necessary to empirically assess the implications of valuation adjustments on the aggregate US economy: even if foreign holders of US assets benefit from booming US asset markets, US residents—and hence the US economy at large—benefit even more for the simple reason that they own the bulk of US assets. A case in point was the US stock market boom during the second half of the 1990s, which generated positive wealth effects and boosted household consumption and corporate investment in the US economy—despite the massive deterioration in the US NIIP during this period (Vermeiren 2014: 64–69).

Second, the ability of US authorities to intentionally manipulate the exchange rate of the US dollar was even limited before the expansion of the US external balance sheet. Baker (2006: 24), for instance, has argued that the US Treasury 'cannot simply whish exchange rate outcomes into existence' and that 'its record in influencing market movements has varied over time': 'A complex interaction of factors – multilateral, domestic and structural – have meant that exchange rate policy has become more technical and technical authority has become at least as crucial in determining exchange rate outcomes as political strategy and the exercise of structural power.' But these obvious constraints to the US capacity to manipulate the exchange rate of the US dollar as an instrument of monetary statecraft should not ignore the fact that 'massive imbalances in American external accounts … are much more consistent with expectations of a long-run trajectory of depreciation rather than of appreciation' (Kirshner 2008: 419). Indeed, as Fig. 17.4 shows, the long-term trajectory of the nominal effective exchange rate of the US dollar since the 1970s—the decade in which the US current account moved from a surplus to a deficit—seems to be one of secular decline combined with temporary bouts of appreciation.

Third, there are many potential reasons why providing US dollar liquidity to foreign actors was in the longer-term interests of the United States, notwithstanding the increased international exposure in the Federal Reserve's balance sheet: by extending its liquidity programmes to non-US banks and financial institutions, the Federal Reserve indirectly bailed out US banks and financial institutions that had developed a massive exposure to these non-US entities; moreover, the extension of the Federal Reserve's liquidity operations to foreign actors served to consolidate the international attractiveness and

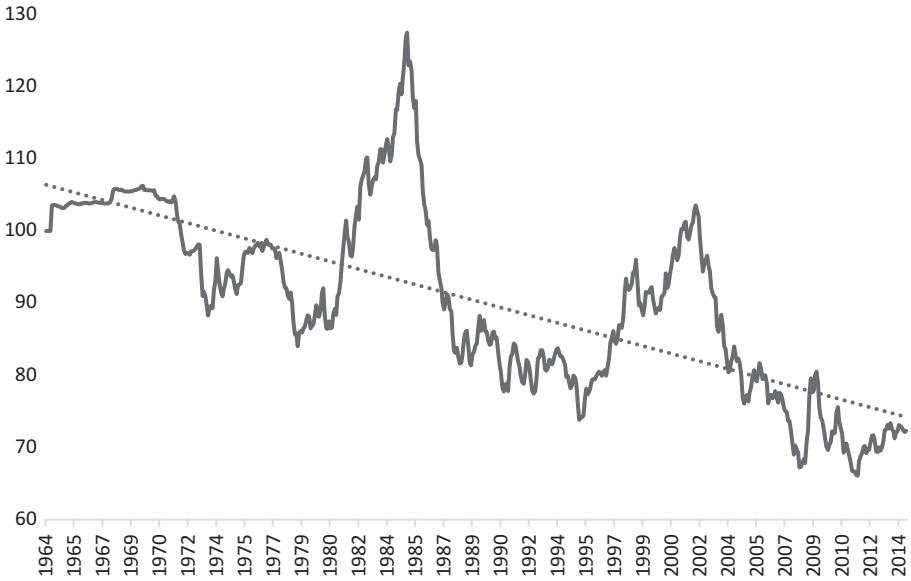

Fig. 17.4 The nominal effective exchange rate of the US dollar in the long term. (Source: Federal Reserve)

centrality of the US financial system in the world economy (Helleiner 2014). The Federal Reserve's bilateral currency swap agreements with foreign central banks were similarly motivated by defensive concerns (McDowell 2012). As Mehrling (2016) succinctly notes, 'the Fed is essentially hybrid, both government bank and banker's bank, and also both US central bank and global central bank'. To be sure, it might be argued that these measures have also increased the 'financial fragility' of the Federal Reserve by exposing its balance sheet to financial losses (Hardie and Maxfield 2016: 605). But the risk of financial losses and 'negative equity' is an inappropriate indicator of the fragility of a central bank that bank cannot go bankrupt like a private institution as it can always absorb losses by creating new money. It is highly unlikely that fiscal recapitalization of the Federal Reserve's equity position would be required in case of financial losses: a cross-national study of the implications of the potential monetary consequences of central bank losses found that recapitalization is only needed in exceptional circumstances (Benecká et al. 2012).

These considerations suggest that it is necessary to make a conceptual and empirical distinction between the external balance sheet 'exposure' of the United States and its 'vulnerability' resulting from this exposure. The ultimate yardstick of international monetary power is the capacity to avoid the burden of macroeconomic adjustment, and there is—so far—no clear evidence that

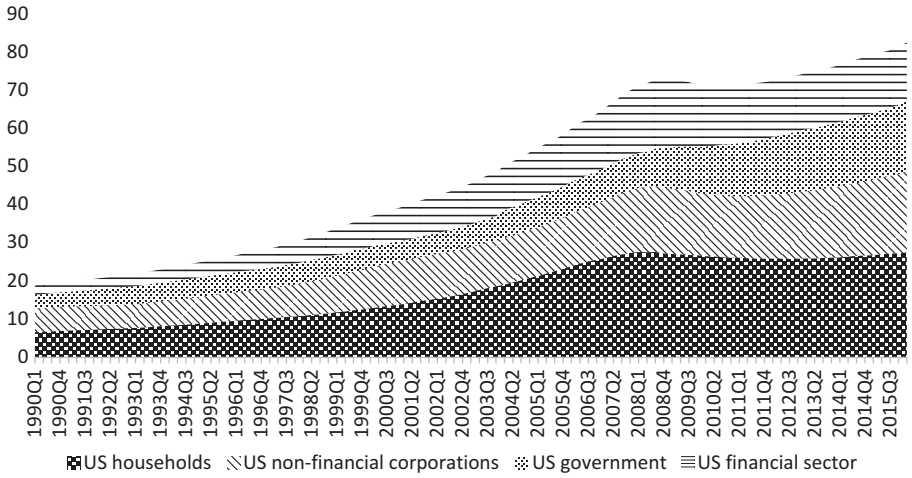

Fig. 17.5 Outstanding sectoral US liabilities in trillions of USD. (Source: Federal Reserve Financial Accounts)

the exponential rise in the deficit of the US NIIP has weakened the ability of the United States to do so. Together with the US government's fiscal policy expansion from 2008 to 2010, the Federal Reserve's QE and liquidity programmes served to minimize the adjustment costs associated with the deleveraging of US households and the US financial sector by reducing long-term interest rates and massively substituting public for private debt. As shown in Fig. 17.5, the aggregate US debt level has further increased after the GFC. Given that aggregate wealth of US households grew from a pre-crisis peak of US$ 67 trillion to US$ 93 trillion and household borrowing picked up ever since, the central features of the US finance-led growth model seem to remain firmly in place. These observations do not accord well with the claim that the dynamics in the US external balance sheet have limited the autonomy of the United States and increased its financial vulnerability.

Conclusion

In this chapter, I have discussed the sources and implications of international currency leadership by drawing lessons from the GFC. In the context of the shortage of safe assets in the world economy, the prevailing hypothesis should be challenged that international currency status is based on conservative macroeconomic policy institutions and practices. The principal reason why pre-crisis theories on currency internationalization believe that this is the case

is that macroeconomic policy conservatism is believed to be necessary to bolster foreign confidence in the stability of the currency's real value. The crisis revealed that the international currency leader has to be the dominant supplier of safe assets in the world economy, exposing several reasons why international currency leadership should be underpinned by *accommodating* macroeconomic policies and institutions. An international comparison with the Eurozone shows that only the United States meets these conditions, explaining why the international status of the US dollar remains unrivalled. That does not mean that the macroeconomic policy nexus of the United States has been *optimal* to its role as the world's dominant net international supplier of safe assets. However, its relatively accommodative macroeconomic policy institutions and policies have been more *helpful* to that role than the relatively conservative monetary and policy institutions and policies in the Eurozone, which have even intensified the global safe asset shortage since the crisis.

The expansion of the US external balance sheet and the massive deterioration of the US NIIP in the years after the crisis have led some scholars to argue that financial globalization has made the United States increasingly vulnerable to valuation adjustments on its foreign assets and liabilities. Given that these post-crisis valuation changes mostly stemmed from its role as the world's preeminent supplier of safe assets, scholars of US international monetary power need to take these dynamics in the US external balance sheet into account in order to develop a more comprehensive understanding of the benefits and costs associated with international currency leadership. I have discussed several reasons why the United States might be less vulnerable to the dynamics in its external balance sheet than it seems. Nevertheless, examining the implications of these dynamics for the macroeconomic autonomy of the United States and its structural capacity to avoid the burden of adjustment will be a promising venue for future research on US international monetary power and currency leadership.

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18

Implications of Brexit

Brendan Vickers

Introduction

Brexit—the UK's withdrawal from the European Union (EU)—is the result of a referendum held on 23 June 2016, in which 52 per cent of eligible UK voters favoured leaving the EU. On 29 March 2017, the UK Government triggered Article 50 of the Lisbon Treaty, commencing the two-year period of withdrawal negotiations that will see the UK formally cease to be a member of the EU on 29 March 2019.[1]

The first phase of the withdrawal negotiations focused on three areas: the settlement of the UK's financial obligations, safeguarding EU and UK citizens' rights, and maintaining an open EU-UK land border with the Republic of Ireland.[2] In December 2017, EU leaders agreed that sufficient progress

This chapter was correct at the time of writing in March 2018. However, the UK and the EU continue negotiations to finalise the Article 50 Withdrawal Agreement ahead of the UK formally exiting the EU on 29 March 2019. Any views expressed in this chapter are those of the author and do not necessarily represent those of the Commonwealth Secretariat.

[1] Withdrawal from the European Union (EU) is a right under Article 50 of the 2007 Lisbon Treaty: 'Any member state may decide to withdraw from the Union in accordance with its own constitutional requirements'. The two-year period for the withdrawal negotiations may only be extended with the unanimous agreement of the EU27 (union members, excluding the UK).

[2] The transition deal holds that Northern Ireland will effectively stay in parts of the Single Market and the Customs Union in the absence of other solutions to avoid a hard border with the Republic of Ireland. This so-called backstop option for Northern Ireland was a key part of the December 2017 Phase One agreement with the UK and must continue to apply 'unless and until another solution is found'.

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had been made to move to the second phase of the negotiations, which focused initially on transitional arrangements and then on the framework for future economic and security cooperation. Because of the complexity of the latter phase, a post-Brexit transitional period until the end of 2020 has been agreed to allow the EU and the UK to finalise their future trading relationship while avoiding an abrupt separation and Brexit cliff edge for the economy.[3] The precise nature and institutional arrangements of this longer-term economic partnership are still unclear. What is more certain is that after more than four decades of EU membership, including over 20 years in the Single Market, Brexit will have wide-ranging implications for the UK, the EU, and third countries around the world. In addition to the economic disruptions that can be expected, Brexit could also exact a geopolitical price on the UK.

Brexit is a journey into unknown territory, as no member state has ever left the EU. As the reality of Brexit approaches, two UK-based EU agencies, the European Medicines Agency and the European Banking Authority, have announced plans to relocate to Amsterdam and Paris. Uncertainty about future EU-UK economic arrangements is now starting to impact on investment decisions, with manufacturing firms preparing contingency plans and some banks moving parts of their operations into EU countries. The UK's third largest company, Unilever, has announced it will move its dual headquarters to Rotterdam after almost a century in London. While the latter is not entirely Brexit related, this decision has dealt a blow to Britain's status as a European business hub ahead of Brexit.

Untangling the UK's legal, regulatory, and institutional relationships with the EU will be extremely complex, costly, and challenging and entail multiple-level negotiations at home and abroad to reposition and rebrand 'Global Britain' in the world. In one estimate, the UK will need to renegotiate or replicate at least 759 international treaties and agreements involving 168 non-EU countries covering a range of issue areas: from agricultural quotas and fisheries to air services agreements and nuclear accords (McClean 2017). The magnitude of this challenge is reflected in the World Trade Organization (WTO), where the USA, Australia, and New Zealand—the UK's proposed partners for post-Brexit trade deals—have blocked a UK-EU deal on agricultural tariff rate quotas.

[3] Note that the transition deal is dependent on the UK and the EU finalising the Article 50 Withdrawal Agreement by October 2018.

But Brexit also presents important and promising opportunities for the UK. For example, the UK will have the autonomy to design its own independent trade policy to support and promote its new strategic interests, including in global services, investment, procurement, and digital trade markets; strike liberalising trade deals with partners of choice around the world; and launch its own initiatives to help the world's poorest countries achieve the Sustainable Development Goals (SDGs) by 2030. Moreover, at a time of rising protectionist sentiments in many countries, threats of a global trade war, and serious challenges confronting the WTO (Narlikar 2018), the UK remains a leading advocate and champion of global free trade. This chapter examines some of the key IPE implications of Brexit for the UK, the EU, and the wider global economy, including the world's poorest nations.

Economic Implications of Brexit

Although the UK has not yet left the EU, the fallout from the referendum decision, uncertainty over the future EU-UK economic partnership and the brinkmanship in the Brexit negotiations have already started to impact the UK's economic performance (OECD 2017). While the UK's growth rate was among the highest for the advanced economies in the Group of Seven (G7) in 2016, the following year it slipped towards the bottom of both the G7 and the Group of Twenty (G20) rankings at a time when both the global economy and the Eurozone are strengthening. In 2017, France narrowly eclipsed the UK to become the world's fifth largest economy by gross domestic product (GDP). India's economy is projected to overtake the UK in the next few years, but this reflects the relative global shift in economic power towards the east, especially China and the Indo-Pacific region.

In the aftermath of the referendum, the pound depreciated by between 10 and 20 per cent, although it has since regained value, especially against the dollar. The fall in the pound has contributed to rising inflation and higher interest rates in the UK, squeezing household incomes, while developing countries have seen reduced earnings from exports to the UK, decreased remittances sent by people working in the UK to their countries of origin, and a lower value of UK aid received by beneficiary countries (Commonwealth Secretariat 2016b). The pound's depreciation has helped trigger greater UK exports, but this advantage may be short lived, given the reality of global value chain-driven production, where imported intermediate parts and components are integral for manufacturing. The UK's lower growth prospects in the medium term could also have a chilling effect on demand for goods and

services produced by other EU countries, especially Ireland, the Netherlands, Belgium, and Germany. Some developing countries may also be impacted, especially those that export price-sensitive goods to the UK (e.g. Bangladesh and Cambodia in textiles and garments, and Kenya in flowers) (Mendez-Parra et al. 2016a).

The UK is a major trading nation, generating trade flows of around US$ 1.6 trillion (almost 4 per cent of total world trade in goods and services in 2016). The long-term economic consequences of Brexit, including the opportunities and the challenges, will depend on how the UK exits the EU. The EU is the UK's largest trading partner, representing about half of its world trade in goods and services. Some 43 per cent UK goods and services exports were destined for the EU in 2016, while 54 per cent of UK imports came from the EU. While the UK's total goods trade within the EU has remained relatively unchanged over two decades, the UK has steadily diversified its trade with developing economies. Developing countries now account for about 25 per cent of the UK's total goods trade, with China accounting for over 3 per cent of the UK's trade in 2016 (compared with less than 1 per cent in 1999) (Fig. 18.1).

Notwithstanding these shifting dynamics, the UK's long-term economic prospects post-Brexit depend on securing a comprehensive economic partnership with the EU 27 (Whyman and Petrescu 2017). At the end of the transition period in December 2020, the UK has proposed a bespoke trade deal—yet to be negotiated and finalised—or will exit without any arrangements in place

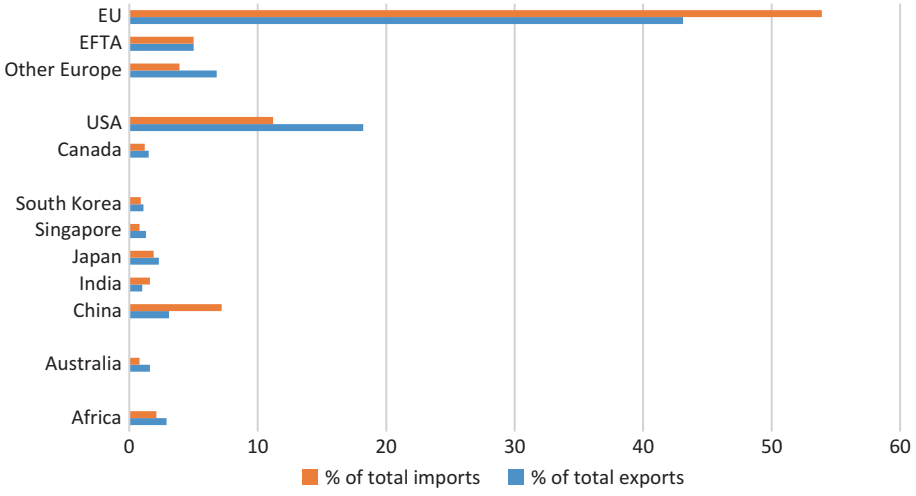

Fig. 18.1 UK trade in goods and services by selected trading partner, 2016. (Source: Author's calculations using data from ONS Pink Book 2017, Table 9.3)

and revert to WTO rules. This is the Brexit paradox: the UK is voluntarily leaving the world's largest and most prosperous trading club—the EU Single Market that it helped design over many years—in order to renegotiate less favourable market access terms and reinstate barriers that will raise the costs of exporting goods and services to its largest trading partner. The UK Government's own assessment of the economic impact of Brexit projects that the UK and all its regions will be worse off in every alternative trading arrangement scenario after leaving the EU. For this reason, some economists have portrayed Brexit as a unique example of 'de-globalisation' in the short-to-medium term, which will harm the UK's economy as trade and investment flows and supply chain integration with the EU are disrupted (Carney 2017).

Brexit Implications for Developing Countries

The EU and the UK are important trade, investment, and development cooperation partners for many developing countries, especially the least-developed countries (LDCs). The economic implications of Brexit will differ among these countries depending on their individual trade relations and broad-based development partnerships. Brexit may directly or indirectly affect their growth and development prospects through various transmission channels, including trade, investment, remittances and aid, as well as the future economic performance of the UK and the EU (Commonwealth Secretariat 2016a, b; Hove and Wakeford 2016; Mendez-Parra et al. 2016a; World Bank 2016).

Owing to strong historical ties, the UK is an important export destination for many African, Caribbean, and Pacific (ACP) countries, as well as LDCs, which send 5 per cent of their exports—mainly consumer goods such as garments—to the UK. For Belize, exports to the UK are 30 per cent of total exports; for Mauritius and Fiji, it is 20 per cent; and for Bangladesh and Kenya, it is 10 per cent. Some other countries may rely heavily on the UK market for specific exports: beef, bananas, fresh vegetables, fish, sugar, rum, and textile and apparel products, as well as tourism services.

These countries are the most exposed to Brexit-related shocks, especially lower export earnings owing to a weaker pound and possible trade disruptions if the UK's post-Brexit trade regime for developing countries is not as generous as the EU's current arrangements. Major ACP fruit, horticulture, and floriculture supply chains also serve the UK market via the Netherlands and Belgium. Brexit could greatly increase the logistical costs of this trans-shipment trade. For example, in 2015, the Netherlands

accounted for 77 per cent of UK cut flower imports, with some 71 per cent of Kenya's cut flowers exports to the EU destined for Dutch ports of entry, compared to a mere 17.3 per cent exported directly to the UK. This suggests a substantial onward trade from the Netherlands to the UK (Vickers and Khorana 2018).

Although information on services trade is limited, the UK has been one of the most important drivers of services exports for many tourism-dependent ACP countries. Lower household income and greater caution around consumer spending in the UK could especially affect the Caribbean tourism sector. Given that UK travellers are reported to spend seven times more than the average tourist in the Caribbean (Global News Matters Caribbean Research 2016), the magnitude of this shock may be significant for certain countries. UK arrivals are most important for Barbados; second most important for Saint Lucia; and third most important for St Kitts and Nevis (Commonwealth Secretariat 2016a).

Shaping the Future EU-UK Economic Partnership

The UK will formally leave the EU Single Market and Customs Union on 29 March 2019 and implement a transitional deal up to the end of 2020. This 21-month transition period will help mitigate a damaging Brexit cliff edge for the economy and allow more time for the EU and the UK to finalise their future trading relationship. During this period, the UK will be effectively bound to the entire EU *acquis*, yet without a direct say in setting the rules and regulations. The UK will still be party to existing EU trade deals with other countries but may also negotiate, sign, and ratify its own trade deals for implementation on 1 January 2021. While the latter is deemed to be a political victory for the UK to advance its post-Brexit trade agenda, such agreements are unlikely as they typically take around five years or more to negotiate. In an extreme yet unrealistic scenario, it could take up to 26 years before free trade agreements (FTAs) with the USA, China, India, Australia, and New Zealand all come into force, should the UK Government seek to negotiate with each of these countries consecutively (Open Britain 2018). There may even be political opposition in the UK if any of these agreements include lower food and other regulatory standards (e.g. imports of chlorine-washed chicken, hormone-treated beef or pork, and genetically modified foods). Bilateral partners may also be hesitant to consider trade negotiations with the UK until the full extent of the post-Brexit settlement is determined, especially if there is a

possibility that the UK remains in some form of customs union arrangement with the EU.[4]

In July 2018, the UK Cabinet adopted the White Paper on the Future Relationship between the UK and the EU, known as the Chequers Plan. It proposes an FTA for goods, which would continue existing regulatory and customs arrangements for manufacturing and agri-food products, and a new Facilitated Customs Arrangement that would remove the need for customs checks and controls at borders. The UK will exit the Single Market for services, allowing regulatory flexibility. The Chequers blueprint was however rebuffed by EU leaders at their Salzburg Summit in September 2018. Given the UK Government's mantra of 'taking back control of money, borders and laws', the EU insists there are only two off-the-shelf models for the future relationship: Norway-style deal of Single Market participation (i.e. joining the European Free Trade Association and then becoming a full member of the European Economic Area) or a Canada-style FTA. In light of this negotiating brinkmanship, the EU and the UK have also started preparations for a 'no deal' exit.

If the UK leaves the EU with no deal, it will have a major impact well beyond trade: from airline flying rights to data transfer protocols would be affected, each of which is a hugely complex issue in its own right. This so-called hard Brexit outcome is likely to cause a significant drop in trade and adversely impact economic growth for all parties, although the UK will be the most affected (Dhingra et al. 2016). The UK's automotive production industry is a case in point: vehicle exports to Europe would face high tariffs (10 per cent) and UK automotive production would lose access to Europe's highly integrated and just-in-time supply chain. The UK performs key functions in 'Factory Europe': one-third of UK exports are used in EU-based supply chains, which may be affected by the WTO's most-favoured nation (MFN) tariffs or even rules of origin checks if traded tariff-free under a bilateral FTA. Overall, the greatest hurdle for UK exporters may not be tariffs per se: the average EU tariff is 5.3 per cent, although it is higher in sectors like agriculture and automotive. Instead, UK business would face higher costs due to new red tape, customs checks at ports like Dover, and possible differences in regulatory approaches, standards, and procedures—so-called non-tariff barriers (NTBs). In one estimate, these NTBs could add 5–10 per cent of costs (Fraser 2017). From standards for food safety to aircraft components and nuclear trade, the UK must establish its own regulatory agencies for compli-

[4] At the time of writing in March 2018, the Labour Party's official policy position is to stay in a customs union arrangement with the EU to avoid any major trade disruptions. There are also cross-party initiatives in the House of Commons and the House of Lords to mandate the UK Government to seek, as part of its withdrawal negotiations, a customs union arrangement with the EU.

ance and certification, and this will require considerable investments of time and resources, as well as inter-agency trust.[5]

The UK is overwhelmingly a services-based economy—around 80 per cent of GDP—and the second largest exporter of services after the USA. In particular, it is the world's largest net exporter of financial services worth US$ 97 billion in 2015. The loss of financial passporting rights post-Brexit could make the City of London's status as a European and global financial hub vulnerable to rivals Amsterdam, Dublin, Frankfurt, and Paris. In one estimate, London could lose 10,000 banking jobs and 20,000 professional roles in financial services as clients move assets out of the UK post-Brexit (Sapir et al. 2017). This may overstate the impact of Brexit, especially as financial service firms move away from requiring EU financial passports to advocating for mutual recognition instead. For now, London's prime position appears to be stable but not unassailable. The City remains at the top of the Global Financial Centre Index, which ranks the competitiveness of financial centres, although the gap between the City and its non-EU rivals, especially New York, is closing (Y/Zen 2018).

Negotiating 'Global Britain' in the World Economy

The UK will also need to determine its future trade relationships with non-EU countries. The EU—and therefore the UK—currently has the world's most comprehensive global network of trade agreements, including over 40 FTAs in place covering 50 countries. The UK will need to replicate or renegotiate these agreements in to maintain its current levels of market access. Four countries, namely Norway, Switzerland, South Korea, and Turkey, account for 70 per cent of all trade conducted under these third country deals. The EU-Korea FTA eliminated 97 per cent of tariffs and broke new ground on services. In its first five years, EU exports to South Korea rose by 55 per cent, with the UK benefiting more than most (Fraser 2017). And after years of negotiations, the EU has concluded ambitious trade deals with Singapore, Canada, and Japan, the latter covering almost 30 per cent of global output, overhauled its old trade agreement with Mexico, while discussions with Australia and New Zealand have commenced. However, Brexit means the benefits of all these agreements will be short lived for UK business unless the UK Government can seamlessly roll over or renegotiate them in some form in the future.

[5] There are 34 regulatory agencies that the UK will either need to stay within—and this could be subject to the jurisdiction of the European Court of Justice—or replicate (Fraser 2017).

The UK Government's stated policy is to roll over all existing EU trade agreements to ensure business certainty and trade continuity (DIT 2017). However, grandfathering the EU's FTAs will be far more complex than simply cutting out 'EU' and pasting in 'UK'. While some FTA partners have expressed an in-principle willingness to proceed on this basis, other partner countries might seek to extract further concessions in specific sectors or policy areas—plus there may be difficulties around compliance with standards, regulations, and rules of origin cumulation, given the structure of UK value chains (Holmes and Gasiorek 2017).

Despite capacity constraints for effective trade diplomacy, the transition deal permits the UK post-Brexit to start negotiating new trade agreements with some of its major trading partners, to be ready for implementation on 1 January 2021. There have also been suggestions that the UK is considering joining the mega-regional Comprehensive and Progressive Agreement for Trans-Pacific Partnership, where more than half of the 11 parties are already Commonwealth member countries. Brexit was partly driven by the perceived protectionism of 'Fortress Europe' and the demand to strike new trade deals with the fastest-growing economies of the world, including China and India. However, various studies suggest that UK FTAs with non-EU countries, including China, India, or the USA, are unlikely to fully offset the economic losses from Brexit (e.g. Ebell 2016; Dhingra and Datta 2017; Lewis and Lowe 2017). The UK's trade with China would have to increase tenfold, for instance, which is unlikely since China is highly protective of its services sector where the UK has strong export interests. In the case of India, the UK would need to agree to grant more visas for Indian workers to trigger any trade talks, which the UK Government blocked in the EU-India FTA negotiations. In fact, Brexit now appears to make an India trade deal more feasible for the remaining EU 27 member countries.

The Trump Administration's 'America First' trade policies also suggest that any UK-US FTA negotiations could face significant hurdles. The USA's imposition of punitive tariffs against Bombardier, which constructs wings and fuselage in Northern Ireland, and tariff hikes on steel and aluminium products, underscores the UK's limited leverage for securing a favourable trade deal in the future, notwithstanding the rhetoric of a 'special relationship' between the two Trans-Atlantic partner countries.

With regard to the latter, the UK will ultimately need to decide which trade standards regime to adopt. The EU and the USA are the main determinants of global standards regimes, at least until China plays a more active role. Since the EU is expected to remain the UK's largest export market for the foreseeable future, the UK's regulatory regime should align closer to the EU. This

implies less scope for deep agreements with third countries, such as the USA. Simplistically put, the UK cannot sign an FTA with the USA that allows for the import of chlorine-washed chickens in the UK and have barrier-free trade in food products with the EU (Vickers and Khorana 2018).

Towards Development-Friendly Trade Post-Brexit

The UK's commitment to promoting trade and development is indisputable and reaffirmed in the UK Department for International Development's *Economic Development Strategy* (DFID 2017). The UK has always recognised and championed the special needs and challenges facing such country groups as the small states, LDCs, and sub-Saharan African countries. It is one of the few high-income countries to achieve the international target of providing 0.7 per cent of its GDP as official development assistance.

The UK is also a strong advocate and a leading donor of Aid for Trade as a means to help developing countries with supply-side capacity building. The UK has contributed approximately US$ 1 billion to multilateral and regional Aid for Trade initiatives. There may also be an economic pragmatism in extending bilateral aid, which boosts jobs and exports in the donor country. For example, in 2014, the UK gave US$ 5.9 billion in direct bilateral development assistance, making it one of the largest individual aid donors in the world. This generated an increase in UK exports of US$ 0.22 for every US$ 1 of aid spent, increasing trade revenue and providing an estimated 12,000 extra UK jobs (Mendez-Parra and te Velde 2017). Post-Brexit, it is crucial that the UK continues its bilateral trade and development cooperation with capacity-constrained developing countries, especially to support trade-related SDG implementation (e.g. increasing Aid for Trade support for developing countries, especially LDCs [SDG 8a], and doubling the LDC's share of global exports by 2020 [SDG 17.11]).

The UK's trade with most developing countries is governed through two WTO-compatible arrangements that provide 'better-than-MFN' treatment, namely the EU's Generalised System of Preferences (GSP) and reciprocal EU-ACP FTAs. The EU's GSP operates as a three-tier scheme:

- Standard GSP, which reduces or completely removes tariffs on approximately two-thirds of tariff lines for goods imports from lower-middle-income countries, with additional criteria for graduating specific products to higher tariffs once import thresholds are reached.

- GSP+, which expands on the standard GSP and gives further reductions to imports from economically vulnerable countries that have implemented 27 international standards incorporating human rights, labour standards, and environmental protection.
- Everything-But-Arms (EBA) for the LDCs, which provides duty-free and quota-free (DFQF) market access for all their originating goods (except armaments).

The EU also has seven regional FTAs with its ACP partners, known as Economic Partnership Agreements (EPAs), which are at different stages of finalisation or implementation. The EPAs provide DFQF market access for all developing country signatories—except South Africa, where tariff rate quotas still apply—under reciprocal arrangements that also require ACP countries to substantially open up their markets to the EU, albeit with longer transitional periods.

Given the importance of the UK for many LDC and ACP exporters, it is imperative that Brexit does not increase the costs or hurdles to accessing the UK market. If the UK's post-Brexit trade regime for developing countries is not as generous as current EU arrangements, two challenges could arise. First, certain products of export interest to developing countries could face higher MFN tariffs in the UK market. Second, higher MFN tariffs would expose smaller ACP exporters to greater competition in niche sectors in the UK market, including bananas, processed fish, and sugar, particularly from other larger developing countries. For example, Belize and Saint Lucia would face greater competition from more cost-effective banana suppliers in Latin America.

There are various possibilities and proposals for framing and shaping the UK's post-Brexit trading arrangements with developing countries (Baldwin et al. 2017; Mendez-Parra et al. 2016b; Jones and Copeland 2017; Stevens and Kennan 2016; Vickers and Khorana 2018). Reflecting its long-standing commitment to assist developing countries with their sustainable development, the UK Government has welcomed and encouraged dialogue and discussion on improving current trading arrangements. To that end, it has announced three major priorities. First, LDCs will continue to enjoy their current EBA terms of access, which provides vital reassurance of trade continuity for investment decisions and future business planning. Second, the UK will create its own trade preference scheme to support economic and sustainable development in in developing countries. Third, the EU will seek to replicate existing EU trade agreements, including the EPAs. The Caribbean Forum (CARIFORUM) EPA and Southern African Development Community

(SADC) EPA are the most settled of all the deals and could provide ready frameworks to negotiate new bilateral agreements with the UK. However, since ACP countries that have signed the EPAs already receive 100 per cent duty-free access in the UK market, any increase in exports is likely to be in new products only. For example, under a possible UK-CARIFORUM FTA, Jamaica can potentially increase its exports in new products by 33 per cent, although this is unrelated to the FTA (Bandele and Banga 2017).

The EPAs have been an extremely acrimonious and divisive experience, especially in Africa, where they have compromised the continent's industrialisation and integration objectives (Vickers 2017). With lesser bargaining power of post-Brexit, the UK will need to carefully consider and consult its ACP partners whether replication of the EPAs is indeed feasible or even desirable. In addition, some EPA signatories with stronger trade links to the UK may be frustrated by the prospect of a smaller EU Single Market post-Brexit. Since the EU will lose its second largest economy—the UK contributes 17 per cent of EU GDP—the balance of concessions negotiated with the EU 28 will change dramatically. Given that the circumstances have materially changed, some ACP signatories may insist on reviewing the EPAs—or even denounce or terminate the agreements under international law.

Back to the Future: Brexit, the UK, and Commonwealth Trade

Increasing economic, political, and other ties with Commonwealth member countries is an important aim of the UK Government's 'Global Britain' strategy to maintain and expand the country's outward orientation after it leaves the EU. Ahead of Brexit, the UK has sought to burnish its commitment to the Commonwealth and foster new trading opportunities by hosting the 2018 Commonwealth Heads of Government Meeting in London. Some commentators have criticised this post-Brexit Commonwealth trade push as 'Empire 2.0'. However, the reality is that Australia and New Zealand are increasingly focused on the Indo-Pacific region, Canada is integrated into the North American market, and many developing countries are prioritising their own regional integration projects—such as the African Continental FTA, which was signed in March 2018—or drawn into the Chinese economic orbit.

Although the Commonwealth is not a trading bloc, such factors as historical ties, familiar administrative and legal systems, the use of largely one

language, English, as the means of communicating with foreign partners, and large and dynamic diasporas have contributed to strong trade relationships among the members. Intra-Commonwealth trade in goods and services grew to US$ 560 billion in 2016 and is projected to reach US$ 700 billion by 2020, while proactive policy measures can trigger even greater trade gains. It has also been found that Commonwealth members on average tend to trade 20 per cent more and generate 10 per cent more foreign direct investment flows than otherwise, while bilateral trade costs are estimated to be 19 per cent less, on average (Commonwealth Secretariat 2018).

Although there are tremendous untapped trading opportunities among the 53 member countries, the Commonwealth does not offer the UK any viable alternative to the loss of EU Single Market. The UK, for example, had the fifth lowest share of intra-Commonwealth goods trade in 2016, which represented around 10 per cent of its world trade (Commonwealth Secretariat 2018). Post-Brexit bilateral trade deals involving the UK and interested Commonwealth members are indeed possible, which could help boost intra-Commonwealth trade. There are also champions of plurilateral (even if improbable) trade deals—for example, an emerging CANZUK bloc including Canada, Australia, New Zealand, and the UK. And although Brexit has given momentum to the debate on the economic potential of a Commonwealth-wide FTA, such an arrangement would be extremely difficult to achieve as Malta and Cyprus remain EU members. Additionally, from countries such as Nauru, with a population of about 13,000, to India with around 1.3 billion people, the Commonwealth is an association of very diverse members in terms of their size, location, and levels of development. The experience of WTO-led multilateral trade negotiations suggests trading arrangements involving a large number of diverse countries can be very time-consuming and often yield marginal gains.

The Commonwealth is home to a third of the world's population (60 per cent under 30 years of age), many of its fastest-growing economies, and half of the globe's top 20 emerging cities. Instead of mega-trade deals, Commonwealth members could focus on improving trade facilitation and tackling NTBs; harnessing opportunities from the emerging digital, green, and blue economies; utilising opportunities to develop regional supply chains in sectors where Commonwealth regions have comparative advantages; exploiting the potential of strong and diverse diasporas to catalyse innovation and investment and to bridge into new markets; and making use of the Commonwealth as the world's ultimate network of networks for establishing and strengthening contacts between traders and investors.

Conclusion

Brexit presents daunting challenges but also promising opportunities for the UK, depending on how the country exits the EU. While much attention has focused on the economic impact of Brexit, there may also be geopolitical implications. One argument is that Brexit will exact a price on the UK's geopolitical standing and global influence. Outside of the EU, the UK may have a diminished role and influence on key foreign policy issues, such as security cooperation through the North Atlantic Treaty Organisation (NATO), the Iran nuclear deal, or sanctions on Russia,[6] as well as its own foreign policy disputes, such as over Gibraltar or the Falklands. The EU position on these and other issues will, in future, not be influenced by Britain and will not necessarily be supportive of Britain (Grey 2018). Post-Brexit Britain will also have to navigate the cross-currents of a relative global economic power shift from the Atlantic zone to China and the Indo-Pacific; this is symbolically reflected, for instance, in the UK for the first time since 1946 losing its seat on the International Court of Justice to an Indian candidate.

Others have argued that Brexit presents an historic opportunity to reshape the UK's global profile and identity as a preeminent global player. As a major world economy in the Organisation for Economic Co-operation and Development (OECD), G7, and G20; permanent member of the United Nations Security Council; and progressive voice in global governance, post-Brexit Britain can exert its voice and influence in international negotiations on trade, climate change, human rights, and other international regimes that provide important global goods. On trade, for instance, the UK Government has repeatedly emphasised that post-Brexit Britain, once unshackled from the EU's common commercial policy, will vociferously champion global free trade (DIT 2017). By supporting open markets in the WTO and resisting protectionism in the G20, the UK, along with other like-minded countries, could offer important leadership on trade at a time when the USA under the Trump Administration has abrogated this historical role. And there is much to be said and made of Britain's soft power to influence other international outcomes.

But Brexit is not only a prism through which the UK recasts its international relations but also how the remaining EU 27 members reflect on the future of the union and their own integration dynamics. As the world's largest and deepest multi-country single market that enshrines free movement of

[6] At the time of writing, the UK as an existing EU member state had successfully marshalled a concerted international diplomatic response to Russia following the Salisbury nerve agent attack in March 2018.

goods, capital, services, and labour, the EU is widely regarded as the most successful example of deep economic integration and regulatory cooperation. However, the recent resurgence of nationalism across parts of Europe—in the UK, 'Leave' voter preferences partly reflected populist concerns about immigration, sovereignty, and identity—underscores the competing visions among many EU member states, subregions, cities, and citizens about the future direction of the European integration project. When the UK does finally exit, the EU's character as a post-modern state could be fundamentally altered depending on the balance of competing member state interests and forces. The UK has traditionally provided a counter-balance to the ambitions of France and Germany, which would now be absent. Brexit could result in deeper political, security, and economic integration in the EU, including greater centralisation of the Eurozone as championed by France, or further disintegration dynamics.

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19

The IPE of Financial Derivatives Beyond Crisis

Duncan Wigan

The world's first complete set of written laws, discovered on a buried tablet by French archaeologists at Susa, Iraq, in 1902, contained an option contract. Written 3800 years ago, paragraph 48 of the Code of Hammurabi (1792–1750 BC) determined that debtors would not pay interest for a year in the event of crop failure. For Dunbar (2000, 24), this was the first derivative. The ensuing history of derivatives (Swan 2000) is strewn with scandal and speculative outburst—the seventeenth-century Dutch tulip mania, the eighteenth-century South Sea bubble, the nineteenth-century manipulation of grain prices on the Chicago exchanges, the bankruptcy of Orange County and collapse of Long-Term Capital Management (LTCM) in the twentieth century, to the implosion of Enron and the Global Financial Crisis (GFC) in the twenty-first century. The leverage embedded in derivative products and the opacity of derivative markets confounds regulation, incubates speculative excess, and catalyses crisis. Warren Buffett's (2003) nomination of derivatives as 'financial weapons of mass destruction' was not misplaced. In these terms, the GFC could have been a final denouement in a long saga of excess and instability. However, the Bank for International Settlements' measure of the size of the derivatives markets provided semi-annually suggests otherwise. At the end of December 2016, the notional amount of over-the-counter (OTC) derivatives outstanding was estimated at $483 trillion. Gross market values, or the cost of replacing existing contracts, stood at $15 trillion (BIS 2017). Markets for financial derivatives remain the biggest markets in the world. Derivatives are both durable and systemic.

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IPE's engagement with financial derivatives is now relatively well developed. Given the central role of derivatives and structured finance in the GFC, much of this engagement has focused on issues of crisis and control and consequently been framed in terms of speculation. Engagement with issues of regulation naturally follows, with issues of capture and regulatory privilege rising to the fore. Given that derivatives markets have catalysed crises generating large direct costs and regressively distributed indirect costs, a focus on the politics of regulation is of central concern. This chapter provides an introduction to these engagements mapping how relationships between speculation, crisis, and financial derivatives have been depicted in IPE and cognate disciplines and how questions of regulation are addressed. The significance of these relationships and questions is plain, given the ramifications of the GFC. Equally, the durability of financial derivatives markets begs the questions of what is important about financial derivatives beyond crisis and what crisis tells us about this importance. The chapter suggests that the peculiar form, liquidity, and flexibility of financial derivatives lay at the heart of the GFC and carries longer-term implications for IPE. The chapter points to these implications in terms of the changing character of ownership and interactions between financial and fiscal systems.

Practical presentations of derivatives markets begin with a definition of financial derivatives as financial contracts, the value of which is a function of change in some underlying asset price or indicator. The markets are dissected into a series of discrete products forms. Futures and forwards commit a holder to buy or sell (call or put) some asset on a given date at a specific price. Options provide holders with rights but not obligations to buy or sell an asset. The largest product form, swaps, allows exchange of one unwanted income stream or price exposure for another, more desired. To enter a contract, buyers pay a very small proportion of the total value of the potential exposure to the change in price of the underlying asset. An initial small outlay entails a leveraged exposure and may subsequently generate very large payments. The basic derivative forms manifest in a series of product markets. Derivatives can reference anything from changes in the rate of inflation, the cost of borrowing, changes in the value of a currency, the price of a share, the probability of repayment, the volatility of markets, the performance of a national economy, or the vicissitudes of the weather. They are traded (opaquely and privately) on OTC markets and more transparently (but in lower volumes) on Exchange-Traded (ET) markets.

The perception of discreet forms and product markets, however, deflects recognition that derivatives are not secondary to markets in the so-called primitives (the underlying bonds, equities, currencies, indicators etc.) and in

turn secondary to some underlying real economic process. Derivatives are not simply a 'fantastic system of side bets' (Bernstein 1996). Ambiguity as to whether prices in derivatives markets are a function of prices in underlying markets or vice versa is not incidental (Helleiner 2018). Financial derivatives are not only instruments for taking on leveraged speculative positions or hedging a real exposure to, for instance, the value of the euro in six months. Derivatives are more fundamentally transformative in terms of being integral to ownership and challenging perceptions of discrete markets, of functional and operational distinctions between finance and production, and regulatory orders constructed on the basis of capital having a readily identifiable—and national—time, space, and identity.

The chapter is short and cuts to the chase. It first introduces work on market infrastructure. Largely conducted under the banner of the social studies of finance, this has been heavily drawn on in IPE to provide understanding of the plumbing necessary for global trade and insight, contrary to the mainstream, into the contingencies attached to this plumbing. Crisis is addressed and heterodox analyses from IPE juxtaposed with a pre-GFC mainstream view of derivatives markets as completing and perfecting. The chapter then examines issues surrounding regulation, pointing to concerns raised by IPE scholars prior to the crisis and analyses of post-crisis regulatory dynamics. The chapter then turns to the systemic importance of financial derivatives beyond crisis and control. Here, the chapter responds to the question of the historic significance of derivatives beyond an understanding which depicts a cancerous outgrowth from a nominal 'real economy', arguing for a perspective on derivatives that depicts them as integral to financialised capitalism.

Contingencies and Crisis

IPE has drawn on its extended multidisciplinarity in the analysis of derivatives to comprehend the mechanics of the markets and, more critically, the contingencies market operations rest on (Lépinay 2011; Mackenzie and Millo 2003; Mackenzie 2005, 2007; Riles 2011). In 'opening the black box of global finance' Mackenzie and Millo mapped the emergence of the market on the Chicago exchanges and associated regulatory skirmishes, tracing the operationalisation of options pricing theory and how operationalisation entailed adjustments that demonstrated that the markets did not mirror an exogenous real economy but produced the world ostensibly described. Contra naturalising depictions in orthodox finance, for Mackenzie and his collaborators markets are 'engines not cameras' (Mackenzie 2006). For instance, Mackenzie

(2007) breaks down the barriers to social enquiry embodied in the 'Efficient Market Hypothesis' and based upon the constructed efficacy of modern financial theory and its enforcement through arbitrage. Drawing on the collapse of LTCM, Mackenzie shows that arbitrage, far from a risk-free exercise conducted by atomistic economic agents, is embedded in a 'Grannovetterian' sociology which propelled 'arbitrage flight' and unravelled a superportfolio imitating LTCM's positions in the wider market. Crucially, Mackenzie concludes that the capacity to insulate 'the economic' from 'the social' is limited.

This work unsettles and decentres an orthodox appreciation of financial derivatives that clings to a sparse and somewhat utopian framework. Alan Greenspan (2003), then seemingly at the height of his powers, predicted, 'Financial innovation will slow as we approach a world in which financial markets are complete in the sense that all financial risks can be efficiently transferred to those most willing to bear them'. Ranielli and Hualt (2007, 13) refer to a regulator commenting on the attitude of American regulators to the credit derivatives market: 'They see the new product as something good, like a new way of exchanging, a way to complete the market in Arrow-Debreu fashion. This is the American way of seeing things and particularly that of Alan Greenspan who has boasted the merits of credit derivatives'. These perspectives perceive financial derivatives markets as technical expedients that fulfil the tautology of perfect markets embedded in an idealised context of freed finance. The social studies of finance approach in demonstrating the limited traction of dividing the economic from the social not only opens up for an IPE of derivatives but points to an inherent potential for miscalculation and crisis.

This has been the core concern for IPE. The narrative is familiar. Derivatives have frequently been central to frauds, market manipulation, rule avoidance, and crises. They are the veritable 'wild beast of finance' (Steinherr 1998). Frequent crises both corporate (Worldcom, Enron, Parmalat, American Insurance Group) and international (Russia, Thailand, South Korea) have shown that the plumbing of international finance is running awry and a state-led regulatory overhaul is urgent and necessary (Dodd 2000; Eatwell and Taylor 2000). Those without faith in completion and perfecting see an unregulated and dysfunctional private casino, the operations of which harbour systemic risk, manifest in the GFC, and perhaps libidinally produced (Gammon and Wigan 2015).

Irresponsible loans and ill-considered borrowing in the US housing market deflated a long-term asset price bubble. Crisis spread as newly recognised and dense linkages between assets, markets, and institutions forged by a globe-spanning web of derivatives contracts acted as transmission mechanism. Asset

values and the solvency of a range of institutions were thrown into doubt. Large derivatives' positions exacerbated this doubt as leverage that had generated outsized returns became an immanent liability. The value of securities and the ability of counterparties in derivatives markets to meet obligations became highly uncertain. The financial system entered into deep freeze as low borrowing costs and default levels and 'non-inflationary constant expansion' (NICE) could no longer be assumed. Trust evaporated, markets and institutions ceased to function, and governments stepped in to the breach, injecting billions of dollars into failing institutions and exposing themselves to the potential of trillions of dollars in losses (Blackburn 2008; Spagna 2018). The incommensurability of risk and uncertainty (Knight 1921) took concrete form, and the promise that a derivatised financial system could perform the alchemic feat of converting an unknown future into stable probabilities proved illusory (Erturk et al. 2008; Langley 2010). Financialisation with derivatives had driven a remarkable shift from public to private. 'Market inflation involving a complex admixture of leverage, cheap borrowing, artificial liquidity, market concentration and opacity ensured, once the crisis emerged, the subjugation of public authority to the imperatives of private market actors. That private losses have become public liabilities, central banks have been willing to accept the products of private innovation as near money equivalents and the response has been restorative rather than substantively disabling is a measure of this shift from public authority to private imperatives' (Wigan 2010, 110).

The shift to private authority was noted early on. A series of derivatives debacles in the first half of the 1990s raised concern as to the destabilising propensity of derivatives. The reaction to these debacles was circumscribed by the G30's 1993 report on the regulation of OTC, off-exchange and privately negotiated, derivatives. The report, 'Derivatives: Practices and Principles', ring-fenced the regulatory response in terms of self-regulation through market mechanisms. As an instance of what Tsingou (2015) has coined 'club governance', where informal groups of public and private actors generate shared understandings of responses to financial system problems, the G30 report constituted the basis upon which subsequent standards, regulations, and best practices were formed. The G30 initiative inspired the formation of the Derivatives Product Group (DPG), bringing together six major dealers in an effort to avoid external regulation. The 1995 DPG report, 'A Framework for Voluntary Oversight of the OTC Derivatives Activities of Securities Firm Affiliates to Promote Confidence and Stability in Financial Markets' took on the G30 recommendations adding detailed prescriptions and pre-empting legislative action in the US. The report left the regulation of derivatives in the hands of the regulated, updated best practice to account for the fact that the

'historic cost' of a derivative (the contract fee) bears small relation to current value, and delimited the problematisation of derivatives to immediate concerns remediable by incremental risk management improvements. The emphasis on self-regulation and regulation and reporting consistent with the volatility of derivative positions was to iterate in the subsequent development of the New Basel Accord and the role of the London-based International Swaps and Derivatives Association in developing a model contract and best practice for the industry (on the role of the International Swaps and Derivatives Association, see Morgan 2008). The Basel Accord updated rules governing the maintenance of bank reserves to guard against bank insolvency.

Basel II substituted private and dynamic risk management for static reserves held against the eventuality of the default by bank borrowers. Following the 1996 amendment of Basel I to incorporate into the calculation of regulatory reserves' market risk, or the risk to a bank resulting from adverse changes in the level or volatility of market prices, Basel II dictated that a bank could enjoy lower capital reserve requirements insofar as it could demonstrate on the basis of privately designed risk management systems that insolvency would be avoided by the careful calibration of risk via taking on and laying off exposures with derivatives. For instance, the Basel Accord allowed for reduced capital reserves if a bank substituted an exposure to a corporate borrower with one to an Organization for Economic Cooperation and Development (OECD) bank by laying off that exposure to that OECD bank via a credit default swap. This had the consequence that banks were incentivised to create credit and redistribute it. The originate-to-distribute banking model subsequently severed the link between risk and responsibility. Relationships to borrowers were converted to relationships with derivatives counterparties (Wigan 2010). In turn, convergence in risk management practices ensured that market participants increasingly used broadly the same daily internal risk assessments and price sensitive risk limits. These require reductions of risk exposure in line with increases in probability of default and lead to a pro-cyclical hedging dynamic. As Value-at-Risk (VaR) systems show that some predetermined limit is approaching, market participants either sell contracts, thus pushing yields wider, or hedge their positions by shorting in the cash equity or bond markets. Both exacerbate crisis. 'As long as market participants herd, which they have been doing for as long as markets have existed, the spread of sophisticated risk systems based on the daily evolution of market prices will spread financial instability, not quell it' (Persaud 2003a, 223, cf. b).

Derivatives and Regulation

The regulatory capture of public agencies and policy by powerful banks in unprecedentedly concentrated markets is in the frame here. '"Multilevel regulatory capture" characterised the global financial architecture prior to the crisis, simultaneously feeding off and nourishing the financial boom in a fashion that mirrored the life-cycle of the boom itself' (Baker 2010, 647). Lobbying, low political salience as markets boomed, intellectual capture and revolving doors between public and private employment roles coalesced to form fertile grounds for excess and irresponsibility (ibid.; Seabrooke and Tsingou 2009). On the basis of these dynamics, IPE has focused in derivatives on the emergence of unprecedentedly speculative and unanchored financial markets. The Keynesian concern that financial markets should not be permitted to take on the guise of casinos returned to the fore of the debate in the immediate aftermath of the GFC (Skidelsky 2009). Toporowski (1999) came early to this position in proposing that immanent in the derivatives trade is the 'end of capitalist finance' as the microstructure of markets generates asset price inflation, decoupled and unsustainable spread contraction, and consequent systemic implosion. Far from perfecting and completing, derivatives promote an overblown financial sector, which carries an imminent threat of systemic implosion and heightens volatility.

The predominant perspective in IPE suggests that since the breakdown of the Bretton Woods System, finance has arisen in monstrous form and proportions to disentangle itself from the strictures of the real economy of production, services, and trade, and parasitically reengineer distribution away from societal needs. Here, the rise of the finance is a distortionary and threatening and derivatives are the 'functional form of speculative capital' (Saber 1999, ix). The Minskyian view similarly focuses on asset price bubbles and financial fragility. Financial derivatives increase the latent leverage in the system at contract inception since the contract price is far less than the value of the underlying assets or exposure. Further, each contract will generate a series of further contracts as sellers and buyers partially hedge their positions with other sellers and buyers. One contract therefore inspires a series of closely related contracts. Consequent systemic financial fragility means that the development of a fragile financial structure results from the normal functioning of the economy, and financial capitalism is fundamentally flawed. Each success at crisis containment leads to further risk-taking (Dymski 1998; Kregel 2008).

Despite promises of systemic change and regulatory overhaul at successive G20 summits, in the wake of the GFC, outcomes have reflected incremental,

rather than the originally envisioned revolutionary change. Regulatory change occurred with the 2010 Dodd-Frank in the US and the creation of pan-European regulatory and supervisory bodies. The Financial Stability Forum was upgraded to the Financial Stability Board, pro-cyclicality and excessive risk-taking has been partially addressed by, for instance, more closely aligning compensation regimes with the financial cycle of asset price inflation and collapse, the imposition of a ban on proprietary trading in the banking sector, the so-called Volcker rule, new rules for governing how the collapse of financial institutions is managed in resolution regimes have been put in place, and a philosophical shift has occurred with the arise of macroprudential thinking (see various contributions in Moschella and Tsingou 2013). The macroprudential turn marks a change in approach from a reliance on the individual risk management practices of market participants and the notion that what is rational from the perspective of each institution is rational and optimal for the system overall. Macroprudential regulation contrastingly recognises that individually rational decisions can lead to negative outcomes in aggregate. When all market participants deploy similar risk management practices in the same markets, price changes at the system level can develop in such a way that individual institutions and markets overall become fragile and unstable. In consequence, the re-regulation of global finance was originally envisioned to account for these system-wide effects.

The results, however, remain uncertain. For instance, while banks under Basel III are now required to build up reserves in the good times to guard against the bad (pro-cyclical capital buffers), the definition of optimal risk management practice remains in the hands of institutions at the individual level. Correspondingly, macroprudential thinking has yet to translate into a wholesale shift (Baker 2013). At the same time, the rise of intermediation outside the traditional banking system has continued unabated, and the 'shadow' banking system has grown. IPE has not been slow to note the systemic threat carried by a credit system involving activities and entities outside of the regulated banking sector and without access to the liquidity support afforded that regulated sector (Ban and Gabor 2016). In addition to re-regulation being gradual and incremental and wholesale change absent, as the memory of the GFC fades, so elements of the post-crisis regulatory package are being unravelled; at the time of writing, Donald Trump has promised to repeal various aspects of the Dodd-Frank Act to ostensibly bolster the competitiveness of US financial markets, and the UK is threatening to create a 'Singapore on Thames' in the event that the European Union fails to provide a soft landing for Brexit (see Vickers (Chap. 18), this volume).

Assessments of post-GFC regulation that specifically targets the operations of derivatives markets and their infrastructure are similarly lukewarm. The G20 post-crisis regulatory agenda at the outset aimed more to improve the operations of the market than fundamentally challenge it. Promises to force standardised OTC derivatives to be cleared by central counterparties, require higher capital reserves held against derivatives that are not centrally cleared, ensure that all standardised derivatives be traded on organised exchanges, impose position limits ('bet size') on derivatives referencing commodities and require that all trades be reported to trade repositories have been implemented. The intentions here were to reduce systemic risk, by minimising uncertainty as to where the instabilities may lie in derivatives markets, and reduce counterparty risk, or the chance that payments would not be made. Central clearing and moving contracts onto organised exchanges would increase transparency and reduce opportunities for market abuse arising from information asymmetries between the major dealer banks and their counterparties. At the same time, centralisation would ensure the retention of margins requisite to position size. Trade repositories would provide supervisory authorities and market actors with more information and a clear picture of the market developments. Position limits in commodity derivative markets would dampen the volatility of commodity markets (see Sneyd and Enns (Chap. 35), this volume). Helleiner, Pagliari, and Spagna (2018, 1–27) argue that the agenda and implementation process has been subject to delay, fragmentation, and inconsistency as market centres feared loss of competitive position and significant private influence on detailed rule formulation, and implementation remains a feature of the post-GFC environment. At the same time, re-regulation in the form of centralised trading only applied to standardised contracts while the vast majority of the markets trade in bespoke contracts. Similarly, position limits were only ever envisaged to be applied to commodity market, not the asset markets where market abuse was most prevalent and instability arose (Ibid.).

Explanations of the absence of wholesale regulatory change vary, but emphasis in terms of proximate causation should be placed on two absences and one presence. Change agents are largely absent in global finance. Regulators and market participants tend to share the same expertise, background, and world views. Similarly, while the immediate post-crisis period witnessed considerable demand for radical change from a public angered by the distributive consequences of the GFC, on the supply side was a notable absence of voices willing and able to advocate on the highly technical issues involved. Present were veto players with significant political influence and the financial resources necessary to ensure their voices were heard first and loudest

(Moschella and Tsingou 2013; Baker and Wigan 2017). A more structural explanation of limited regulatory ambition, fragmented implementation and dilution over time rests in understanding derivatives markets as integral to the current era of financialised capitalism and therefore durable and systemic.

Beyond Crisis and Control

The systemic and durable character of financial derivatives demands responses to the question of their historic role. Bryan and Rafferty (2006) lead the way here, suggesting that the significance of the markets lies not so much in speculative propensity as transformative force. When money and prices were left to the determination of market forces after the collapse of the Bretton Woods monetary and financial order, but stable prices and exchange rates failed to materialise, derivatives stepped in to the breach. Derivatives are an anchor that provides moment to moment stability for market participants, so that in a world where the promise of market delivered price stability proved illusory, stability became a commodity embodied in the derivative contract. By binding the present and the future and blending geographically and functionally distinct assets, derivatives are a new form of capital. The ability to mix asset forms and switch readily between them means that finance transcended older categories upon which the conceptual apparatus deployed to comprehend it has been constructed. For instance, the distinction between capital and credit is not easily upheld when a single contract blends both, and one can easily, and at will, morph into the other. Similarly, financial derivatives call for a reconceptualisation of ownership (ibid.; see also Wigan 2008, 2009).

Ownership and property with derivatives take a third form, which substitutes as its object, change for growth and decouples property from production. Veblen (1924) pointed to the emergence of this process with the rise of limited liability and 'absentee ownership' where ownership abstracts from the physical (productive) activity it ostensibly refers to and capital is afforded an independent (corporate) personality. Owners switch readily between assets on the basis of fluctuations in market prices and their dispersal is one step removed from the underlying production process. This ownership form superseded direct ownership where labour is alienated from its product and the means of production, but the owner remains manager, overseeing directly the productive process and tying her fortunes to the long-term competitive position of the product. In this, the relationship between the owner and the production process is sticky and difficult to exit. Absentee ownership via corporate equity markets in contrast entailed that, 'the visible relation between the

owner and the works shifted from a personal footing of workmanship to an impersonal footing of absentee ownership resting on the investment of funds' (Veblen 1924, 59).

Derivatives as a third form of ownership represent a second level of abstraction from the underlying productive process. In synthesising ownership of aspects of asset performance (Das 2005), derivatives sever the link between property and tangible assets. In doing, derivatives also escape the exigencies that arise from direct or absentee ownership. The notion of risk that underlies derivatives markets is informative here. Risk is not danger but variance, and derivatives valorise variance. As such ownership has no necessary connection to positive economic performance. In these circumstances, systemic meltdown may for the owner be positive and sustainable growth negative. In the GFC, many investors profited enormously from the collapse in the US housing market, taking positions through credit default swaps on collateralised debt obligations that banks had packaged to move mortgage loans off the balance sheet (Lewis 2010). This is symptomatic of a systemic shift where individual financial market participants are no longer wedded to positive economic performance as the liquidity and fungibility of financial assets abstracts from what has hitherto been considered the 'real economy'. By synthesising underlying asset performance, derivatives break through previous limits on financial production with the creation of contracts only limited by extant risk appetite in the market (Wigan 2010). The financial system in consequence may function unencumbered by the direct imperatives of industrial capitalism and competition between individual capitals in the production process.

A similar process of historical transcendence is apparent in the relationship between financial and fiscal systems. Donohue (2012) estimates that the annual tax loss to the US Inland Revenue Service as a consequence of avoidance via derivatives is of the order of US$ 100 billion. For some, this is indicative of motivational depravity and moral decay. If that were an adequate understanding, then derivative markets would not carry particular historical significance. Tax systems are constructed on the basis of stable categories of time, space, and identity. Derivatives have transcended these categories (Bryan et al. 2016). A tax charge is made on the basis of a readily identifiable time when income or gains are recognised, a readily identifiable place where the taxable event happens, and the event taking a readily identifiable form. Short-term capital gains taxes are higher than long-term gains taxes. Taxes in one jurisdiction differ from taxes in others. Taxes on intellectual property royalties differ from taxes on increases in the price of a home (see Vlcek (Chap. 22), this volume). Derivatives can make these differences and distinctions evaporate. The Noble Laureate and inventor of options pricing theory, Merton Miller, was quite aware of this transcendence some time ago:

> The income tax system of virtually every country that is advanced enough to have one seeks to maintain… different rates of tax for different sources of income – between income from capital and income from labour; between interest and dividends; between dividends and capital gains; between personal and corporate income; between business income paid out and business income retained; between income earned at home and abroad; and so on.
>
> At the same time… securities can be used to transmute one form of income into another – in particular, higher taxed forms to lower taxed ones… (1991, 5–6)

The gap between concepts underlying regulatory apparatus and how financial derivatives can be strategically instrumentalised has been extensively exploited by the financial sector. The Structured Capital Markets division of Barclays reportedly contributed as much as £ 1 billion a year to Barclays' profits by selling complex structured products which had the effect of reducing tax charges or providing synthetic deductions—accounting items that can be set against taxes due (Lawrence 2013). In 2014, Barclays and Deutsche Bank were investigated by the US Senate for facilitating large-scale tax avoidance. The scheme in the frame entailed selling hedge funds basket options products used to conduct over US$ 100 billion of trades and producing more than US$ 35 billion in profits. Effectively, innumerable short-term trades were packaged in one large option, exercised after 365 days and qualifying gains as long term. Short-term capital gains are subject to up to 39% tax in the US. Long-term capital gains are subject to 20% tax in the US. By conducting short-term trades in the basket structure, leverage limits and federal taxes were avoided, short-term capital gains were converted into long term, and the hedge funds were able to access the banks' leverage ratio of 20:1, rather than the 2:1 leverage ratio applied to brokerage accounts held at US dealers (see Bryan et al. 2016 for fuller explanation).

The significance of these examples for IPE and the IPE of derivatives concerned with regulation and control goes beyond that derivatives are used for regulatory arbitrage. More importantly, financial derivatives demonstrate that financial innovation has rendered obsolete regulatory tools resting on a conceptual apparatus built for another era and prior forms of capital. While issues of crisis and control rightly occupy the attention of scholars and public policy, carrying significant implications for those parts of society burdened with associated costs, it is issues of historical transcendence that point to the longer-term significance of the largest markets in the world.

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20

‘Fintech’ and Financial Inclusion

Nick Bernards

Introduction

Related narratives about ‘inclusion’ and technological change have dominated recent debates about finance in the Global South. Briefly, ‘financial inclusion’ referring to wider access to formal financial services, particularly for the poorest, has been widely embraced as a policy goal at global and national levels. It is increasingly seen as necessary for ‘inclusive’ and sustainable growth, financial stability, and poverty reduction (e.g. AFI 2010). Faced with uneven progress on this front, however, advocates of financial inclusion have increasingly doubled down on this narrative and policy initiatives promoting applications of emerging technologies as key to achieving these goals—a development that I describe in this chapter as the ‘turn to technology’. These include increasingly widespread mobile phone use, Big Data analytics, and a host of new techniques for evaluating credit risk (e.g. ‘psychometric’ credit scores) and processing payments (e.g. ‘mobile money’ or blockchain). Collectively, these emerging applications of new technologies to financial services are often referred to as ‘fintech’ or ‘finnovations’. This brief chapter critically examines the linkages between financial inclusion and fintech, and explores their implications for international political economy (IPE) more broadly.

There is a burgeoning critical literature on the political economy of ‘financial inclusion’. Scholars have pointed out that ‘financial inclusion’ misleadingly constructs relations of poverty as the result of the absence of credit,

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ignoring the intersections of poverty with wider patterns of social and economic transformation, highlighted the emergence of new forms of exploitation through the development of new financial systems targeting the poor (Soederberg 2014), and explored the political dynamics underlying initiatives for 'financial inclusion' in particular places (Bernards 2016; Güngen 2017; Langevin 2017; Taylor 2012). Limited critical attention has been paid thus far, however, to the emergence of 'fintech' applications in 'banking the unbanked'. There are some important recent exceptions—these have often focused on the role of increasingly pervasive surveillance enabled through new technologies in constituting the 'unbanked' as subjects of global financial markets (e.g. Gabor and Brooks 2017; Aitken 2013, 2015, 2017).

In this chapter, I raise some wider questions about 'fintech' and its linkages to wider patterns of crisis and change. In particular, I highlight the linkages between the turn to technology and longer cycles of failure, crisis, and adaptation which have been typical of processes of neoliberalization over the past 40 years (see Brenner et al. 2010). The turn to 'fintech' is in part a response to the limited and uneven progress of 'financial inclusion' in the decade since the most recent global financial crisis. The project of 'financial inclusion' itself emerged at the confluence of the global financial crisis of 2007–08, and a series of high-profile failures in microfinance. Microcredit, in turn, grew to prominence as a strategy for governing poverty largely as a reaction to the failures of structural adjustment lending in the 1980s and 1990s. This has critical implications in terms of the limits of fintech both as a tool for reducing poverty and for 'disrupting' existing financial systems.

I develop these arguments in three steps. The first section traces out the key arguments about fintech, innovation, and financial inclusion made in major policy documents and by the growing army of think tanks and consultancies advocating financial inclusion. The next section seeks to situate this 'turn to technology' in the context of wider dynamics of crisis and reform in the neoliberal governance of poverty. The concluding section reflects on the implications of these developments and the limits they pose for fintech and the project of financial inclusion.

Financial Inclusion and the Turn to Technology

The 2014 version of the World Bank's Global Financial Inclusion (Findex) Database estimates a global population of roughly two billion 'unbanked'—those not having a bank account or access to other formal financial services (Demirguc-Kunt et al. 2015). The headline figure is a reduction in the number of 'unbanked' people by about 500 million people from the previous estimate

of 2.5 billion published in 2011 (Demirguc-Kunt and Klapper 2011). By contrast, what growth in terms of borrowing from formal financial institutions has been highly uneven. In Malaysia, for instance, the proportion of low-income people borrowing from formal financial institutions more than quintupled on the back of a rapid expansion and formalization of *sharia* compliant *sukuk* lending (from 2.9 to 15.2 per cent). But formal borrowing actually *declined* in a number of key countries, including China, India, and South Africa. Indeed, the estimated overall proportion of the poorest two income quintiles borrowing from formal financial institutions in low- and middle-income countries actually *declined* between 2011 and 2014 from 7.7 per cent to 6.8 per cent (see Demirguc-Kunt et al. 2015).

It is increasingly common to frame this uneven progress as a result of technical barriers and to highlight the capacity of new technologies to overcome these as a potential solution. The boom in mobile phone use in developing countries, particularly in sub-Saharan Africa—where recent estimates count 367 million mobile phone subscribers, nearly double the 200 million estimated subscribers in 2010 (GSMA 2015)—is often a source for particular optimism. A recent report from McKinsey and Company echoes this line of argument: 'Every step towards the full digitalization of financial services helps reduce costs, making it profitable for providers to serve a much larger range of customers' (McKinsey & Co. 2016: 31). New forms of mobile payment systems are perhaps the paradigmatic example here. Most prominently, M-Pesa—a mobile payment system operated by South African telecoms provider Vodacom, first established in Kenya—has grown dramatically, even expanding into conventional banking services following its establishment in 2007 (see Mbiti and Wells 2013; Omwansa and Sullivan 2012). The McKinsey report cited above, indeed, makes note of the reach of mobile money in Kenya—where nearly 70 per cent of adults have a mobile money account—as supporting evidence for the claim that 'a growing majority of people in emerging economies now own a mobile phone, which can give them ready access to financial services', and dramatically lower costs for financial institutions to serve 'poorer and more remote consumers' (McKinsey & Co. 2016: 31). Similar claims are now increasingly being made about emerging technologies like cryptocurrencies (see also Brass and Hornsby (Chap. 38), this volume). BitPesa, for instance, offers a cryptocurrency-based remittance service allowing African immigrants to bypass many of the intermediaries and costs involved with traditional money transfer services like Western Union. BitPesa charges a flat 2 per cent transaction fee, as compared to an average of 12 per cent for traditional remittance services (see Rodima-Taylor and Grimes 2018: 123). The service has partnered with banks and mobile payment services in Nigeria, Kenya, Uganda, Tanzania, Senegal, and the Democratic Republic of the Congo.

An area of increasing emphasis is on the production of alternative forms of data for use in credit scoring. In the words of one group of consultants, where lenders in the Global North can rely on paystubs, property registers, and detailed credit histories, 'such data are often lacking in the global south', leaving lenders 'unable to properly understand their consumers and assess their risk, either forcing them to charge high interest rates to protect against unforeseen risk or discouraging them from serving new markets' (Insight2Impact 2016: 4). This is increasingly treated as a significant barrier to financial inclusion. New forms of data and techniques for processing, in this context, are increasingly seen as solutions. A report commissioned by the Inter-American Development Bank (IADB) notes that 'alternative analytics… help develop more robust client risk profiles at a fraction of what it would cost to compile such information manually' (IIC and Oliver Wyman 2016: 18). Two major developments are notable.

First are applications of 'Big Data' and machine-learning algorithms in credit scoring for the 'unbanked'. Big Data applications have proliferated, if unevenly, in global finance more generally (see Campbell-Verduyn et al. 2017). In contrast to what might be called 'small' data—produced directly through controlled sampling techniques limiting scope, time-frame, size, and variety—Big Data are produced continually, in high volume, varied, and often as a by-product of the normal operation of information technologies rather than through direct investigative processes (see Kitchin and Lauriault 2015). The analysis of such mass volumes of data is made possible by the application of computerized algorithms which are distinguished from the static 'models' used in traditional statistical analyses by their dynamic and recursive character (Beer 2017). Big Data, particularly in the context of growing mobile phone and internet use in developing countries, are seen as a vital source of alternative credit scoring for 'unbanked' consumers: 'The increased use of digital technologies by [micro, small and medium enterprises (MSMEs)] and their customers is generating a wealth of new data that can be used to understand the MSME market, assess creditworthiness, and manage risk more effectively' (IIC and Oliver Wyman 2016: 7). A notable example here is the start-up Cignifi, which aims to produce alternative credit scores on the basis of potential borrowers' mobile phone use. Cignifi has developed a proprietary algorithm that uses a behavioural model drawing on data about calls and texts received per day, along with patterns of web and social network usage, to assess the credit worthiness of mobile users who can then be selectively targeted for financial products. This is licenced out to telecommunications operators and financial service providers (see Aitken 2017: 10).

There have also been efforts to develop alternative forms of 'small' data for evaluating credit in the absence of formal credit histories and employment or

property records. Most prominent, perhaps, are so-called 'psychometric' credit scores. Psychometric tests aim to quantify cognitive attributes for the purpose of screening individuals' suitability for certain tasks. They originated in efforts to develop 'scientific' techniques for hiring (see Schmidt and Hunter 1998). One of the highest profiles of such systems has been developed by the Entrepreneurial Finance Lab (EFL). EFL has developed a test drawing on measures of intelligence and 'integrity' which is administered to potential borrowers lacking detailed credit histories (see Klinger et al. 2013a). The test is normally administered by computers in a bank branch, but the company has developed online and mobile versions in some settings as well. In the case of either 'big' or 'small' forms of data, though, the basic point is that adopting alternative forms of credit data—often as means of assessing the psychological character of borrowers rather than their more opaque economic circumstances—is framed as a way of diminishing collateral requirements and interest rates that might otherwise disqualify MSMEs from formal borrowing. As the above IADB report puts it, this 'presents a significant opportunity to expand MSME portfolios at a lower cost than was previously possible, while maintaining acceptable levels of risk' (IIC and Oliver Wyman 2016: 18). EFL echoes these arguments. While noting that psychometric credit scores are unable to match the predictive power of detailed credit histories,

> In an information scarce setting, a tool that can signal a 50% increase in default risk is a useful signal and can identify a profitable subset of an overall population that is too risky to lend to and otherwise indistinguishable. This would be a very valuable outcome both for the entrepreneurs that could now gain access to credit as well as to the banks who could lend to them. (Klinger et al. 2013a: 43)

The bigger point here is that, faced with frustratingly slow and uneven progress on 'financial inclusion', advocates have increasingly doubled down on (hopeful) arguments about technological change, accompanied by increasing support from international, regional, and national financial governors for 'fintech' applications, and the development of a number of new commercial ventures. There are, as I argue further below, good reasons to be sceptical of these developments.

Financial Inclusion and Global Crises

It is worthwhile to take a step back and look at the recent turn to technology in the context of wider patterns of crisis and governance. We can usefully understand the project of financial inclusion in terms of its relationship to

patterns of crisis on two registers. On one hand, it is hardly coincidence that the turn to arguments about 'inclusion' in global finance came in the aftermath of the global financial crisis of 2007/08. Both the project of 'financial inclusion' in general and the turn to technology in particular are thus usefully understood, in this sense, as part of a wider patchwork of post-crisis regulatory reforms that have incorporated new technical, ethical, and political concerns without fundamentally altering the market-oriented foundations of financial governance (see Best 2010; Campbell-Verduyn 2017; Germain 2010; Helleiner 2014).

On the other, we can also point to a relationship of the current 'turn to technology' to broader patterns of neoliberal development governance. In particular, the recent intensification of claims about technological change and financial inclusion is yet another iteration of a cycle of failures and adaptations constituting longer-run processes of neoliberalization of development governance. It probably doesn't need elaborating at length that programmes of structural adjustment failed by almost any standard (see Harrison 2010; Best 2016). However, as Harrison aptly notes of sub-Saharan Africa, given the rather dismal track record of neoliberal reforms in practice, 'it is remarkable… that throughout the last generation… we have witnessed the rise *and rise* of a well-integrated and increasingly ambitious neoliberal development ideology' (2010: 37). In the 1990s and 2000s, this meant a widening series of interventions, often aimed at a 'community' level, aimed at producing people and institutions more suited to market-based modes of development (see Cammack 2004). One of the major policy fads to emerge in this context was microcredit. Microfinance was seen as a means of 'empowering' the poor in developing countries, particularly economically marginalized women, by giving them access to credit that in theory would allow them to participate in entrepreneurial activities.

The developmental successes of microcredit have been mixed at best. Feminist critiques of microfinance have been particularly adept at picking apart the deeply gendered discourses of entrepreneurship, risk-taking, and empowerment underpinning microfinance (e.g. Rankin 2001; Maclean 2013). More generally, microcredit has in practice primarily been used to smooth out patterns of consumption rather than start new businesses. This is significant because it is not at all clear that credit, especially the high interest loans typical of commercial microcredit, is a particularly effective means of stabilizing consumption (Bateman 2010, 2012). Such concerns were compounded by a series of high profile crises, most notably a spate of suicides by highly indebted farmers in Andhra Pradesh, India. As a number of commentators have noted, one response to such concerns about the developmental

benefits of microcredit was an increasing turn to arguments about 'financial inclusion' as a goal unto itself (see Taylor 2012).

The point is that the turn to the arguments about technology highlighted in the previous section can be situated in the context of wider patterns of crisis and reform over 30-plus years of neoliberal development governance. The recent turn to arguments about the capacity of new technologies to create a more inclusive financial sector should be understood in part as a political response to the slow and uneven progress of 'financial inclusion' despite the best efforts of global and national financial regulators, especially in the decade since the global financial crisis. In this sense, arguments about technology can be interpreted as another in a longer string of reforms in which 'developmental practice has come to couch its problems and solutions in neoliberal terms' (Harrison 2010: 37). In common with previous rounds of reforms, the turn to technology has represented a limited, technical response that is likely to do little to alter more enduring, structural sources of poverty and dispossession, and has not involved any re-thinking of the basic, market-oriented principles of development practice (see DiMuzio and Dow (Chap. 34), this volume). Indeed, it has arguably more deeply entrenched these logics.

The Limits of Innovation

In this final section, I suggest that this is suggestive of some significant limits to the potential for technological change to deliver on its promises. IPE scholars ought to be casting a sceptical eye to claims about the scope and pace of technological change in this area and others (cf. Bernards and Campbell-Verduyn Forthcoming). Technology and technological change no doubt matter in initiatives for poverty reduction, as in most other areas of social life. Three points are particularly important to underline.

First, the geography of fintech applications in the Global South actually maps quite closely onto the already uneven map of financial access (see Bernards 2017). For all that mobile money is often framed as disruptive to conventional banks, for instance, it has been rolled out most successfully in places that already had relatively deep financial sectors. Many supposedly 'disruptive' fintech applications have relied far more than is often acknowledged on support from both global and national regulatory agencies and existing financial service providers. Because of regulators' concerns about the creation of 'alternative currencies', for instance, mobile money and cryptocurrency-based payment services have largely been rolled out through partnerships with existing banks. M-Pesa's widely copied structure

of operations sees customers depositing cash with registered agents, which are matched by money in a digital 'wallet' that they are then able to transfer to other users, while the cash equivalent of all the electronic money in the system is held in a bank account by the mobile operator (see Omwansa and Sullivan 2012; Rodima-Taylor and Grimes 2018). This system obviously depends on ready access to conventional banks, at the very least for the operator.

A similar dynamic is often visible with respect to new forms of credit scoring. Crucial to the development and roll-out of EFL's psychometric credit scoring products, for instance, was a series of pilot tests supported and publicized by the World Bank and Inter-American Development Bank (the results of which are published in a series of working papers: Klinger et al. 2013b, c; Arráiz et al. 2015a, b). In 2013, EFL received a grant from the G20's 'SME Finance Challenge', an initiative launched alongside the G20's Principles for Innovative Financial Inclusion and managed by the World Bank's International Finance Corporation, that included funding from the governments of Canada, the US, the UK, Korea, and the Netherlands (SME Finance Forum 2014). The EFL also received a large grant from the US Agency for International Development in 2014. Moreover, in practice, the commercial roll-out of psychometric credit scoring has taken place primarily through partnerships with existing banks, MFIs, and credit ratings agencies—meaning that in practice EFL operates in a handful of specific countries, through partnerships with local banks and microlenders, and increasingly with mainstream credit scoring firms. The countries involved, notably, are primarily large countries which already have relatively deep financial sectors (South Africa, India, Mexico, Kenya, Indonesia, Russia) or otherwise major markets for microfinance (Peru) (see Bernards 2017).

Second, claims about the poverty-reducing value of new technologies are fundamentally premised on a particular understanding of development premised on the 'entrepreneurship' of the poor, particularly in 'informal' economies.[1] However, the longer track record of microcredit suggests that the relations of indebtedness and exploitation often implicit in new forms of credit may actively *worsen* poverty in the longer term for borrowers (see Soederberg 2014; Taylor 2012; Bateman 2012). Thus, even if we take at face value claims about the capacity of new fintech applications in credit and payment systems to extend access to formal finance, it is worth asking whether this in and of itself is likely to lead to poverty reduction in the absence of

[1] See Bernards (2018) for a more detailed critical treatment of the politics of the 'informal'.

wider-reaching changes. Faster and cheaper payments enabled by new systems of communication, meanwhile, don't necessarily carry the same risks of exploitation, and might carry some short-term benefits. Neither, however, are likely to resolve more fundamental structural inequalities in the absence of more fundamental reforms.

Finally, and relatedly, claims about the potential for increasingly fine-grained assessment, management, and pricing of risk through the application of new technologies would seem to replicate a kind of utopianism about new technologies that has often pervaded financial markets. Crucial to the accumulation of systemic risks in the global financial system in the early 2000s, for instance, were decisions by regulators to accept the claims made by leading banks that their adoption of sophisticated computer models of historic risks, coupled with new techniques for managing these risks (e.g. securitization, credit default swaps), justified the loosening of prudential regulation. It hardly needs repeating that these systems turned out to have critical blind spots (see Porter 2010; Best 2010; Lockwood 2015). While the existence of a mass of everyday borrowers whose credit worthiness is assessed and priced through an expanding range of digital techniques remains little more than a fantasy at present, it is worth asking what the blind spots might be in emerging systems of risk management.

Efforts at mobilizing new forms of credit data are often premised on fundamentally individualizing ideas about economic activity (see also Griffin (Chap. 39), this volume). Psychometric credit scoring might be the clearest example here—providing credit scores based on a supposed assessment of the fundamental character of borrowers. According to one study authored by staff of the Entrepreneurial Finance Lab, an early leader in the development of psychometric credit scoring: 'At a first approximation, the psychometric dimensions we seek to measure are stable over time among adults. This allows us to measure them and compare to historical and concurrent outcomes' (Klinger et al. 2013a: 21). This matters in terms of the efficacy of psychometrics because there are good reasons to suspect that assessments of static individual intelligence and personality traits are deeply limited in the context of informal economies that are suspended in various sets of power relations and structures of accumulation (see Phillips 2011; Meagher 2005). This is accompanied by some more prosaic problems as well. For instance, there have been recurrent concerns on the part of some potential client banks about the possibility of borrowers 'gaming' psychometric tests. A Bangladeshi bank manager interviewed by the *Financial Times*, for instance, worried that 'If you ask the same set of questions to people in the same business circle, after a while they will grow familiar with the test' (qtd. Kynge 2014). Similar concerns

have been expressed about the capacity of machine-learning algorithms to effectively assess credit risks among the 'unbanked'. Not the least of which are questions surrounding the potential mismatch between the rigidity and simplicity of data necessary to enable the processing of mass volumes of information by algorithms and the complex relations of power, institutional forms, and everyday practices through which the livelihoods of the 'unbanked' are enacted (see Wu 2015; Aitken 2017).

In short, the transformative potentials of fintech for financial inclusion should be viewed with some scepticism. The turn to technology does not seem likely to alter the fundamental dynamics of neoliberalization that have underlined the broader patterns of crisis outlined in the previous section. Indeed, in some ways they may deepen or extend them. A key task for future research ought to be exploring the ways in which technological changes intersect with and are mediated through longer-running patterns of governance and power relations.

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21

Risk

Marc Schelhase

> Risk is the probability of contingent harm, assessed in terms of frequency of occurrence and severity of loss. While statements of risk are intended to provide more certainty, they also convey uncertainty. They are at once expressions of knowledge and expressions of ignorance …. (Ericson 2006: 346–347)[1]

> Can we know the risks we face, now or in the future? No, we cannot; but yes, we must act as if we do. (Douglas and Wildavsky 1983: 1)

Introduction

In many ways, the emergence of risk as a key reference point in our daily lives is a reflection of what Beck (1992, 1999) has famously called the risk society and what Power (2004) has referred to as the risk management of everything.[2] It is within this context that the chapter conceptualises risk as essentially

[1] Ericson has added a reference to Adams (1995, 2003).

[2] See also Giddens (1999).

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socially constructed, as a term that suggests objectivity but rather masks ambiguity, and to which the nexus between power and knowledge is central (Dean 2010: 206–207; Foucault 1991).[3] Risk is, therefore, context dependent and—in terms of dealing with uncertainty—can be considered a function of the future, or, to put it differently, as a means to project our expectations of the future onto the present (Luhmann [1993] 2002). And through the expansion of risk—or better the language of risk— into ever-wider areas of our daily lives, risk and technologies of risk are employed to govern— or better to manage—individuals, organisations, and society as a whole (Ericson et al. 2003; O'Malley 2004: 7–13; O'Malley 2008; Power 2004).

This chapter has a key aim: to introduce the reader to the concept of risk in its widest sense and to demonstrate—through a critical engagement with risk and uncertainty—that 'looking through a risk lens' at actors and competing organisational and societal realities, that is, the risk triangle (Schelhase 2014), provides us with a powerful analytical tool to unpack the contemporary political of economy of risk.

By applying the risk triangle, this chapter, therefore, contributes to an emerging literature in (international) political economy that—through reflecting critically on risk and uncertainty—advances existing debates and unlocks new avenues for research.[4]

Furthermore, the chapter provides both a useful reference point and a framework to (better) reflect on—and critically evaluate—other topics discussed in this section of the handbook, for example, the implications of Brexit, debt, derivatives, regulation, and standards but also climate change.

Consequently, the next part of the chapter introduces the concept of risk and discuss different ways of thinking about risk in order to help the reader choose his or her particular approach to risk. The chapter concludes with reflections on the utility of the concept of risk in times of (global) crises.

Dimensions of Risk

In many ways, the study of risk is the study of decision-making, of human behaviour in the face of uncertainties and of the desire to predict—if not control—the future.[5] As such, as Bernstein (1996: 8) puts it, '…risk is a

[3] See also Smith (2004: 315).

[4] See for example Dannreuther and Kessler (2017); Dannreuther and Lehki (2000); Lockwood (2015); Nelson and Katzenstein (2014); Nesvetailova (2015) and Paudyn (2013).

[5] See also Beck (1999: 3).

choice rather than a fate. The actions we dare to take, which depend on how free we are to make choices, are what the story of risk is all about. And that story helps define what it means to be a human being'.

It is no surprise, therefore, that different ways of thinking and of applying risk have emerged over time.

Risk and Uncertainty

A good starting point is the distinction between risk and uncertainty as put forward by Knight.[6] For Knight ([1921] 2006: 20), the distinction is between '*measurable* uncertainty, or "risk proper" and uncertainty which is unquantifiable, or "true" uncertainty' (emphasis in the original). Importantly, he argues that it is this true uncertainty from which an entrepreneur derives his or her profit. As Knight ([1921] 2006: 310–311) summarises:

> the only "risk" that leads to a profit is a unique uncertainty, resulting from an exercise of ultimate responsibility, which in its very nature cannot be insured nor capitalised nor salaried. Profit arises out of the inherent, absolute unpredictability of things, out of the sheer brute fact that the results of human activity cannot be anticipated and then only in so far as even a probability calculation in regard to them is impossible and meaningless.

Although, as Luhmann ([1993] 2002: 1) points out, Knight's distinction between (quantifiable) risk and (unquantifiable) uncertainty has somewhat become 'a sort of dogma', it is nevertheless central to conceptualising the tension—and, therefore, making the link—between economic theory and the realities of business ([1921] 2006: 20; Luhmann [1993] 2002: 1). Furthermore, Knight's conceptualisation is very useful in pointing out the *positive* aspects of uncertainty, in this case profit. This is important because it is quite common for individuals or society at large to associate risk and/or uncertainty with something negative, that is, a threat,[7] whereby the positive aspect of risk and/or uncertainty, that is, a reward, is forgotten or at least downplayed.

The chapter now turns to arguably the oldest way of trying to address risk and uncertainty: insurance. At the heart of insurance is the concept of risk or, as Ewald (1991: 198) argues, 'insurance can be defined as a technology of

[6] For the continued relevance of Knight's argument, see Nelson and Katzenstein (2014).

[7] Arguably, 'risk as threat' is conceptually confusing: threats are not risks; threats are risks that have materialised, that is, they exist and they are therefore not a function of the future anymore (Schelhase 2014: 47).

risk'. Among other things, insurance as a technology of risk is interesting because it does not categorise risk as a positive *or* negative event per se.[8] Rather, risk, in insurance terms, is linked to probability and here in particular to what Bernstein (1996: 48–49) refers to as its double meaning: 'Probability has always carried this double meaning, one looking into the future, the other interpreting the past, one concerned with our opinions, the other concerned with what we actually know'. The desire for the latter, 'a theoretical understanding of the frequency of past events' (Bernstein 1996: 49), also links the study of probability to gambling—throwing the dice—and, therefore, risk (Bernstein 1996). As Ewald (1991: 199) notes, 'insurance's general model is a game of chance: a risk, an accident comes up like a roulette number, a card pulled out of a pack. With insurance, gaming becomes a symbol of the world'.

From the eighteenth century onwards, the concept developed into what we understand today as insurance, although its origins arguably date back several millennia.[9] The conceptualisation of contemporary insurance as governance—and with it technologies of risk more generally—is, of course, linked to Foucault's idea of governmentality but extended to the private sector (Ericson et al. 2003: 29; Foucault 1991: 102–103). In Foucault's understanding, governmentality aims to conceptualise the character of the modern society as one essentially focused on the management of the population through a complex form of power, with its primary form of knowledge of political economy and its 'essential technical means apparatuses of security' (Foucault 1991: 102). Following O'Malley (2004: 7), governmentality can be more broadly understood as 'an analytic of government' aimed at understanding 'risk as a complex category made up of many ways of governing problems, rather than as a unitary or monolithic technology'.

Essentially, insurance—through risk—becomes a technique in order to attach a certain meaning to an event. Or, as Ewald (1991: 199) puts it, 'nothing is a risk in itself; there is no risk in reality. But on the other hand, anything *can* be a risk; it all depends on how one analyses the danger, considers the event' (emphasis in the original).[10] Insurance companies are, therefore, not so much focused on the details of individual cases or customers beyond building a picture of the (potential) customer around specific underwriting

[8] Compare Ewald (1991: 199).

[9] For an analysis of the evolution of the concept of insurance, see Lobo-Guerrero (2011). See also Bernstein (1996: 92).

[10] Compare also Knight's ([1921] 2006: 247–252) discussion of insurance as a means to deal with risk.

criteria such as age, health, past claims history, and, until recently, also gender.[11] As a result of these criteria, general judgements about certain groups of the population can be made, risks can be pooled and consequently spread, and therefore premiums calculated (O'Malley 2008: 57–58). Therefore, risk symbolises a randomness and an objectivity because 'insurance, through the category of risk, objectifies every event as an accident' (Ewald 1991: 199).

Consequently, as noted earlier, probability is another aspect that is closely linked to risk and insurance, as not only premiums have to be calculated but also the monetary value of whatever one has chosen to insure has to be determined in order for compensation to be paid (O'Malley 2008: 58). In short, in insurance terms, risk is calculable, risk is collective, and risk is also a capital (Ewald 1991: 201–205). Yet, as mentioned earlier, insurance understood as a technology of risk turns the underwriter into a 'maker of reality' who makes and shapes what is perceived as risk. And this risk—or better the perception of it—is considered to change in the light of new information or the unfolding of events. As Ericson and Doyle (2004b: 15) point out, '… insurers experience liability for things they did not know existed at the time of underwriting (e.g., asbestosis), or did not visualise with respect to severity of catastrophic loss (e.g., the terrorist activity of 11 September 2001)'.

Insurance companies, therefore, become important risk managers in their own right that share many of the risk management objectives, techniques, and interests of the state. In terms of objectives, within the context of a (neo-) liberal society, insurance facilitates individual 'risk-taking' and thus emphasises individual responsibility. As such, insurance enables choice, as it offers compensation in the case of a negative event. In relation to techniques, insurers attempt to pool risks, thus making them more 'manageable'. They also emphasise risk mitigation and prevention, aspects that are frequently understood—and often ridiculed—as health and safety requirements by the general public. Insurers also employ similar methods of surveillance as the state, for example, through the use of databases or investigators. In terms of shared interests, insurance companies are important investors in the wider economy, both in terms of the stock market and, importantly, also in relation to government bonds. And, of course, the state regulates the wider insurance market.[12]

[11] As a result of a European Court of Justice ruling, in the European Union gender can no longer be used by insurance companies as a criterion to calculate premiums (Insley and Jones 2011).

[12] For the paragraph, see Ericson et al. (2003); compare also Dickinson (2001: 195–201); Ericson and Doyle (2004a); Ewald (1991: 207–210).

Consequently, as Ewald (1991: 208) points out, by the end of the nineteenth century, through the introduction of a modern conception of insurance, the world we live in became '… a world without God, a laicized world where "society" becomes the general arbiter answerable for the causes of our destiny'. This is what Bernstein has captured so succinctly when he entitles his history of risk 'Against the Gods'. Through the technology of risk, societies—and the individuals within them—aim to deal with the future themselves, and thus reflect on their own actions and behaviour through risk, rather than rely on a God. As Ewald (1991: 210) argues, 'the technology of risk, in its different epistemological, economic, moral, juridical and political dimensions becomes the principle of a new political and social economy'.

Risk as Context

There is, of course, one underlying theme when writing about risk and that is that of culture and what role culture plays in relation to individual, organisational, and societal conceptions of risk.[13] When it comes to the interplay between risk and culture, risk selection and risk acceptance are arguably conditioned by cultural norms and, from Douglas' point of view, risk in this context is collective rather than individualistic (Lupton 2013: 74–75). In many ways, therefore, we as a society, or better groups within a society, choose what to fear in order to justify our way of life (Douglas and Wildavsky 1983).

So, are we now living in Beck's risk society? In many ways, it does seem so. As noted earlier with reference to Ewald, one of Beck's key arguments is that today's societies are primarily concerned with managing the consequences—or manufactured risks in Beck's terminology—that are the result of processes of industrialisation and technological progress, the first modernity. The society we live in, the second modernity, is thus dominated by reflexivity, by a focus on its own self (Beck 1992: 20). As a consequence, we are living in a risk society. As Beck (1992: 21) summarises:

> *risk* may be defined as a *systematic way of dealing with hazards and insecurities induced and introduced by modernisation itself*. Risks, as opposed to older dangers, are consequences, which relate to the threatening force of modernisation and to its globalisation of doubt. They are *politically reflexive*. (Emphases in the original)

[13] For an introduction to risk and culture, see Douglas and Wildavsky (1983); for an overview of the topic see Lupton (2013: 52–76); Tulloch (2008).

For Beck (1999: 3), risk '…is an (institutionalised) attempt, a cognitive map, to colonise the future'. To link this analysis of risk to our previous discussion of risk and insurance, contrary to Ericson and Doyle introduced earlier, Beck (1999: 3–4) argues that a key characteristic of these 'new' risks—such as climate change, nuclear power, financial crises, or genetic engineering—and their consequences is the fact that they are uninsurable, as they are deemed beyond calculability, beyond probability. In turn, however, the risks generated by the risk society are impossible to be addressed on the level of the nation state. As Beck (1992: 47) notes, '… risk societies bring about "communities of danger" that ultimately can only be comprised in the United Nations'.[14] Following Beck, another key characteristic of the risk society is also increasingly disputed nature of experts and their judgements. As he notes (1999: 4), '… there is at the same time the immateriality of mediated and contested definitions of risk *and* the materiality of risk as manufactured by experts and industries world-wide' (emphasis in the original).

However, rather than agonise about the myriad of risks and their consequences—and our inability to control these risks—actors within society, for example, governments but also scientists—assert that these risks are indeed manageable or calculable (O'Malley 2004: 1–2).[15] A common way to define and think about risk in this regard is consequently, as previously mentioned, that of probability and impact, that is, a risk is the combination of the likelihood of an event happening and the severity of its impact.[16] As such, since the mid-1990s, risk management has spread to ever-larger sections of our daily lives. The language of risk now permeates everyday tasks and routines as we face the pressure for auditing and verification, the spread of regulation, risk assessments, operational and reputational risk management, and risk heat maps—maps that try to capture probability, impact, and severity graphically. In short: the rise of the 'audit society' (Power 1999) and emergence of 'the risk management of everything' (Power 2004). As a result, be it the 'war on terror' or the aftermath of the 2008 financial crisis, the answer seems to be more information to govern risk and uncertainty, not less.[17]

[14] It is important to note here that, for Beck, the result of the dynamics inherent in the risk society is a new cosmopolitanism (Beck 1999).

[15] An interesting and relatively early publication in this regard is the report published by the former Strategy Unit in the UK's Cabinet Office. It acknowledges the 'risk society thesis' and sets out a cross-governmental strategy on how to manage risk and uncertainty (Cabinet Office 2002).

[16] See, for example, Bessis (2010).

[17] It is, in fact, questionable that we could ever manage to amass enough information about, for example, financial markets—and first and foremost, who decides what is considered enough—but also to what extent could all this information actually be used by market actors? For this argument, see Best (2010).

In relation to the former, following the 9/11 terror attacks, governments have sought to extend surveillance over entire populations—where everyone is a suspect—in order to identify suspicious behaviour. The language used here is that of managing risk, yet the principle is that of precaution and the technologies employed are those of governmentality (Aradau and van Munster 2007). The application of the precautionary principle, that is, that action has to be taken now, which is not based on actual events but on an assumption what might happen in the future, breaks the link between cause and effect in terms of policymaking. Politicians in the 'war on terror'—but, of course, also elsewhere—are risk managers, both to the public and to themselves. Government, therefore, thrives on the nexus between 'scientific' risk assessment and the subjectivity of risk. As Smith (2004: 329) points out, 'risk is an excellent form of knowledge for government because it is scientific and ambiguous at the same time'.

With reference to the latter, the financial crisis has been a stark reminder of the fact that the probabilistic notion of risk and risk as essentially calculable is only one aspect of the risk dimension (Valencia 2010).[18] Of course, the inherent subjectivity, cultural conditioning, and perception of risk vis à vis the probability of risk has been widely discussed before.[19] Yet the context dependency of risk evaluations was above all made clear to many by the widespread reduction in mortgage availability for most borrowers following the 2008 financial crisis. This did not (just) happen as a result of severe liquidity constraints and pressures to increase capital requirements in the aftermath of the crisis but also because of how the possibility of default of the individual borrower—that is, the risk—was judged by the mortgage lender post-crisis. This happened despite the fact that in many ways the 'objective' risk, or indeed the asset against which it was secured, arguably had not fundamentally changed.[20]

[18] See also De Goede (2005: 141–143).

[19] See, for example, Adams (1995); Douglas and Wildavsky (1983); Royal Society (1992); Stirling (1998); Slovic (1998).

[20] In relation to the UK housing market, see the Financial Conduct Authority's Mortgage Market Review (MMR), which came into effect on 26 April 2014 with the overall aim of reforming the mortgage market through tighter regulation, for example, assessing applicants' lifestyle and spending patterns in detail and stress testing applicants' budgets against future interest rate rises (see: http://www.fsa.gov.uk/about/what/mmr, accessed 15 March 2018). The anticipated impact of the MMR in terms of damping house price growth so far seems to be very limited, with annual house price inflation in England running at 10.4% (ONS 2015).

Risk and risk evaluation is therefore always contextual, where the context itself can become a further risk. As Luhmann ([1993] 2002: 42) notes, '… the evaluation of risk [is] dependent on the present. Like the present, evaluation of risk can shift in the course of time, and like the present it can reflect itself in the time horizons of the past and the future'. Risk, therefore, becomes a concept to define the way we reflect our expectations of the future onto the present, that is, time is not linear in a risk-based environment. As Luhmann ([1993] 2002: 43) points out, 'if the future is highly likely to differ from the past … and if there is no time in the present, how do we turn the page from the past to the future – blindly? … [This decision is] what we refer to as risk'.[21]

The Risk Triangle

The notion of the risk triangle, that is, the interplay of personal, organisational, and societal risk dynamics with changing perceptions of risk at the centre, is arguably central to the understanding of the interaction of different conceptions of risk (Schelhase 2014). Taking into account the multiple layers into which individual risk (analysis and management) choices and much institutionalised risk management processes are embedded as part of the wider notion of risk governance (Renn 2008: 353–355; van Asselt and Renn 2011), namely 'the organisational capacity, … the network of actors, … the political cultures[,] …. the risk culture… and the degree of trust in the institutions responsible for risk governance' (IRGC 2017: 32), is thus an important step towards unpacking the contemporary political economy of risk.

For example, whereas 'the age of austerity' following the 2008 financial crisis is commonly blamed on the banks and classified as a danger by borrowers and governments, both of these groups of actors neglect to acknowledge that they themselves made decisions about what risks to accept rather than what dangers to encounter.

Certainly, the financial services industry is partly to blame for the crisis that erupted. For instance, in relation to the residential mortgage market in the UK, lenders were able to offer ever-higher loan amounts by not only basing their lending decisions on past repayment patterns, current incomes, and a valuation of the property in question but by also counting on a continuing

[21] For Luhmann, the important distinction is that between risk and danger. Risk, in this case, is linked to decision-making, whereas danger is something that we do not relate to our own decisions ([1993] 2002: 23–24).

increase in asset prices and often also taking into account the future earnings potential of prospective borrowers.

However, borrowers are arguably equally responsible in this regard, as they made decisions about the affordability and the size of their mortgage relative to their income and their perceived ability to repay.

But responsibility also lies with the government, which arguably encouraged—or at least tacitly approved—ever-higher asset prices and evermore adventurous forms of home ownership in order to sustain a political economy centred on asset-based welfare (Watson 2009). In fact, when the UK housing market started to stagnate following the 2008 financial crisis and in the face of the planned introduction of new rules tightening the eligibility criteria for home loans as part of the Mortgage Market Review, mentioned earlier, the UK government in 2013 embarked on the so-called 'help to buy' programme.[22] The aim of the programme is to enable borrowers to access home loans more easily, either by providing a 20% equity loan interest free for five years for newly built properties or by enabling lenders to purchase a mortgage guarantee for up to 15% of the value of the property, both underwritten by the government (the mortgage guarantee scheme closed to new applicants in December 2016).

Consequently, the (now infamous) comment by Chuck Prince, Chief Executive of Citigroup, to the *Financial Times* in 2007, shortly before the financial crisis fully erupted, 'when the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you've got to get up and dance. We're still dancing', does equally apply to consumers and governments as it does to banks.[23] In that sense, we seemed to have not learnt much from the 2008 crisis (Sinclair 2010), or at least not yet.

Times of (Global) Crises, Times of Risk?

The theoretical framework advanced in this chapter is one that focuses on risk as a socially constructed concept—as a concept that is predominantly context dependent and—in the way it is used in the context of uncertainty—that can be understood as a function of the future. Consequently, technologies of risk, their language, and routines have spread to all areas of daily life and are used

[22] For more details on the 'help to buy' scheme see: 'Help to Buy' (https://www.helptobuy.gov.uk, accessed 15 March 2018).

[23] For the quote, see Nakamoto and Wighton (2007).

to govern or manage it. At this point, it is important to recall the contingent nature of risk as well as the practice (or temptation) to use it as a means to suggest (at the very least a degree of) certainty. As Power (2007: 203) emphasises, '… beneath the surface of rational risk management designs, and claims of value-enhancing practice, lurks a pervasive fear of the possible negative consequences of being responsible and answerable, of being required to produce decidability in the face of the undecidable'. Of course, as Luhmann ([1993] 2002: 28) adds, '… in the modern world, not deciding is … also a decision'. Individuals or indeed societies might strive for safety (security), yet there are no safe choices—any decision is inherently contingent (Luhmann [1993] 2002: 28).

As such, '… decisions are based on ambiguous, contestable, and contextual assessments of risk [(or danger)] and uncertainty, yet these decisions and assessments happen within the context of formalised and often codified processes of risk formulation and assessment that …' in themselves are inherently risky (Schelhase 2014: 49). The 'normalisation of deviance' subsequently becomes a regular feature of the realities of everyday (organisational) life (Vaughan 2005).

Since the 2008 financial crisis—and maybe even before—the notion of uncertainty, of 'living in uncertain times', seems to have taken hold of, in particular, Western (in its broadest senses) societies. There is, then, the very real danger that we in contemporary (Western) society romanticise the past, while simultaneously we are paralysed by uncertainty,[24] and thus by extension by the presence of the future. Yet by doing so, we might create the very future we are trying to avoid (Luhmann [1993] 2002). Beck's (1999: 136) 'real virtuality' seems to capture this dynamic well. From the vantage point of the present, the past will always look begrudgingly certain and even benign, whereas the future seems to hold only uncertainty, if not fear.

Adopting a critical and reflective understanding of risk, therefore, turns the concept of risk into a powerful analytical tool to both unpack and reflect on events and processes, on discourses and societal (under)currents, in order to identify key (risk) dynamics, on a personal, organisational, and societal level. Thus, the concept of the risk triangle contributes to developing a political economy of risk that is able to harness the resulting analytical insights to better understand, reflect on—and maybe even anticipate—the crises yet to come.

[24] I am grateful to one of my interviewees for pointing this out to me.

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22

Tax Avoidance

William Vlcek

Introduction

Arguably, tax avoidance is an evolving concept, and the nature of that evolution is outlined through the definitions provided in the next section. In part, this situation reflects the fact that tax avoidance (along with tax evasion, tax fraud, and any other legal and normative designation for practices involving tax and taxation) is a product of the tax system itself. Just as legislation determines what is to be taxed and by how much, this legislation simultaneously creates the opportunities to avoid that particular form of taxation. Further, when the taxpayer or their assets cross a border, they may avail themselves of the ability to arbitrage between two (or more) jurisdictions' domestic tax legislation in order to achieve the lowest possible aggregate tax payment. Naturally, crossing the border also provides the taxpayer with the means to put their assets beyond the reach of the domestic tax administration (the historical practice) or simply to conceal their assets from the tax administration in a foreign jurisdiction.

This chapter is organised into four sections, with the first section providing and unpacking the terms used in connection with tax avoidance at the present time. The second section provides a brief historical context for the shift from tax avoidance as a national problem to tax avoidance as an international problem requiring multilateral cooperation. The third section reviews some of the current concerns driving the agenda for multilateral cooperation, while the

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fourth section takes a rhetorical step back. This move serves to substantiate a point that the international problem of tax avoidance may not be as global as claimed. Rather, the multilateral agenda represents a problem experienced mainly by developed state economies, with those concerns of the Global North dominating the international discourse on tax avoidance.

Definitions for Tax Avoidance

There are a variety of sources to consider for a definition of tax avoidance with subsequent differences in perspective and desired outcome from the definition. For the purposes of this chapter, however, the Organisation for Economic Co-operation and Development (OECD) seems most appropriate, as it is the home for the Model Tax Treaty and the leading international organisation shaping cross-border tax policy. The 'Glossary of Tax Terms' on the OECD website provides a straightforward definition while at the same time projecting a normative judgement of the practice.[1]

> *AVOIDANCE—A term that is difficult to define but which is generally used to describe the arrangement of a taxpayer's affairs that is intended to reduce his tax liability and that although the arrangement could be strictly legal it is usually in contradiction with the intent of the law it purports to follow.* Cf. *evasion*.

The normative judgement implied in this statement is that the taxpayer or their legal advisors were expected to know what was in the minds of legislators and their intentions rather than relying solely on the text of the legislation itself. Those intentions are subject to debate and may be difficult to agree on, leading to contestations between cross-border taxpayers and national tax administrations.

The definition for tax avoidance then may be compared to the OECD Glossary's definitions for tax evasion and tax fraud, which are explicitly illegal conduct.

> *EVASION—A term that is difficult to define but which is generally used to mean illegal arrangements where liability to tax is hidden or ignored,* i.e. *the taxpayer pays less tax than he is legally obligated to pay by hiding income or information from the tax authorities.*
>
> *FRAUD—Tax fraud is a form of deliberate evasion of tax which is generally punishable under criminal law. The term includes situations in which deliberately false statements are submitted, fake documents are produced,* etc.

[1] See http://www.oecd.org/ctp/glossaryoftaxterms.htm (last accessed 18 July 2017).

With these two definitions, concealment is the determining factor, concealment through either omission (failing to report taxable income) or commission (providing fraudulent documentation about taxable income). The distinction made between these two definitions, that tax fraud 'is generally punishable under criminal law' reflects the fact that there are jurisdictions that treat some forms of tax crime as a civil offence, while other jurisdictions will treat them as a felony criminal offence.

More recently, the normative aspect to the definition of tax avoidance has been extended by the OECD in its identification of 'aggressive tax planning'. This terminology has emerged since the 2008 financial crisis to justify increased efforts to pursue corporate income tax from multinational corporations (MNCs; see Carrero and Seara 2016). But the use of the phrase 'aggressive tax planning' and its cognate 'aggressive tax avoidance' lack precision in the OECD's usage and like beauty appears to be more in the eye of the beholder. In its 2013 study, *Addressing Base Erosion and Profit Shifting* (BEPS), the OECD authors acknowledged 'the difficulties in precisely identifying the dividing line between what it is aggressive and what is not', hence the determination is made using the 'anti-avoidance provisions' of the tax law (OECD 2013, 43). In other words, aggressive tax avoidance is any action the tax administration determines to be 'aggressive'. For the European Union (EU), 'Aggressive tax planning consists in taking advantage of the technicalities of a tax system or of mismatches between two or more tax systems for the purpose of reducing tax liability' (European Commission 2012).

Consequently, aggressive tax planning may be understood as representing tax arbitrage—the utilisation of differences in tax legislation between different jurisdictions by a taxpayer in order legally to minimise the tax owed in each individual jurisdiction. The MNC, for example, may accomplish this tax arbitrage via intra-firm transactions in a corporate structure composed of subsidiaries tax resident in multiple jurisdictions (Vlcek 2017, 26–27). The individual natural person with substantial cross-border assets also may be accused of aggressive tax planning through the similar use of a corporate vehicle registered in a foreign jurisdiction. The underlying premise is that any one discrete action may be legal but not consistent with the *intentions* of the tax legislation and hence its application is 'aggressively' misused. In order to effectively deal with cross-border tax avoidance, some form of international cooperation on taxation becomes necessary. An understanding for the development of international cooperation is helped with an appreciation for the historical path leading to the contemporary situation.

A Brief Historical Context

As related by Thomas Rixen, there was no need for international tax governance until the beginning of the twentieth century. This history does not mean there were no wealthy individuals with assets in multiple jurisdictions nor MNCs before then. Rather, it recalls that income taxes were not a significant source of government revenue, and import tariffs were the main source of general operating revenue for many jurisdictions (Rixen 2008, 86). The direct taxation of individuals, through income or wealth taxes, was not a new concept, it was simply more difficult to collect in comparison to import tariffs (Levi 1989, 124). Mass mobilisation and the massive destruction of the First World War in Europe created the need for mass government revenue and led to the widespread introduction of the income tax on a permanent basis in Europe and North America. For the MNCs of the time, it also introduced a new phenomenon, that of 'double taxation' and the complaint that it represented an unnecessary and expensive burden on cross-border trade. Rixen points out that early bilateral treaties to counter double taxation in Europe prior to 1914 were criticised by some legislators because double taxation was not, in fact, 'unfair' for the firms operating in the two jurisdictions covered by the treaty. Rather, these firms were consuming public goods in both jurisdictions, which by rights they should help finance (Rixen 2008, 87).

The question over any double taxation imposed on MNCs was addressed initially under the aegis of the League of Nations, responding to an appeal for a multilateral solution. The complexities of national tax legislation, in terms of approach, scope, and application, soon nullified any belief that a simple and clear solution to the problem of double taxation existed. Those efforts to reach consensus for a multilateral treaty did, however, produce some of the concepts subsequently used in bilateral tax treaties and familiar to readers today, such as permanent establishment (Rixen 2008, 87–96). The work accomplished under the League of Nations was transferred to the United Nations but achieved little further development. The desire for a multilateral agreement remained strong in Europe, nonetheless, leading to the presentation of the topic before the Organisation for European Economic Co-operation (OEEC), predecessor to the OECD. Initially, that desire motivated the OEEC's efforts for a European-specific solution. The challenges that faced earlier attempts at a multilateral solution remained, leading to a shift in focus to a model for a bilateral tax treaty that would serve to remedy the problem of double taxation (Rixen 2008, 96–99).[2]

[2] See http://www.oecd.org/ctp/treaties/model-tax-convention-on-income-and-on-capital-2015-full-version-9789264239081-en.htm (last accessed 27 July 2017).

The OECD is deeply involved in global tax governance and the campaign to eliminate tax avoidance beyond its Model Tax Treaty. In the late 1990s, the OECD pursued 'harmful tax competition', which it found located in small, non-member jurisdictions (OECD 1998, 2000). But that work of the OECD on international taxation slid down the international agenda in 2001 as other issues rose to prominence. Following the misadventures with the *Harmful Tax Competition* project, the OECD now seeks to be more inclusive and prominently advertises the participation of developing economies in more recent endeavours.[3] The 2008 financial crisis returned tax avoidance to the top of the international agenda for the major developed economies affected by it. Recognising a need for collective action and cooperation among the larger economies to resolve the financial crisis led to its place on the agenda of the April 2009 Group of Twenty (G20) Heads of Government meeting in London, which in its Communiqué committed participants 'to take action against non-cooperative jurisdictions, including tax havens' (G20 2009, 4). The Communiqué further noted that the OECD was simultaneously publishing its first list, identifying the level of compliance with its 'internationally agreed tax standard', making special reference to 'tax havens' and 'other financial centres' (OECD 2009). Over the next five years, the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes facilitated meetings leading to the development of a Common Reporting Standard (CRS) for the automatic exchange of information on foreign account holders to address tax avoidance by individuals and the 'base erosion and profit shifting' project to counter tax avoidance by corporations.[4] The story behind these initiatives for dealing with cross-border tax avoidance is discussed in more depth in Vlcek (2017).

Current Issues of Concern

Another feature of the post-financial crisis era has been increased public attention placed on tax avoidance as a societal problem. The revelations made by whistle-blowers exposed the practices of both individuals and corporations to avoid paying taxes. Knowledge that had seemed solely the domain of practitioners and a few academic researchers is now distributed widely across all forms of media, print, broadcast, and online. In particular are the efforts of an

[3] For example, see http://www.oecd.org/tax/beps-about.htm (last accessed 22 September 2017).

[4] See http://www.oecd.org/tax/transparency/ (last accessed 3 August 2017).

international collective of investigative journalists deeply involved in processing, analysing, and reporting on the vast amount of previously confidential information provided by whistle-blowers.[5] Data released into the public domain are often nicknamed for easy reference and accessible sound bites, including the 'Lagarde List' (a spreadsheet containing account details on secret accounts with HSBC Switzerland), 'Offshore Leaks' (a computer hard drive containing data from two financial services providers), 'Lux Leaks' (records documenting the confidential tax rulings provided to MNCs by the government of Luxembourg), the 'Panama Papers' (a trove of documents from a Panamanian law firm documenting its use of offshore structures to help clients avoid taxes), and the 'Paradise Papers' (a similar trove of confidential documents from a law firm in Bermuda).

These revelations exposed tax avoidance practices used by MNCs and high net worth individuals (HNWIs), and they reflect the focus of the two OECD initiatives mentioned earlier. The involvement of financial intermediaries, including lawyers, accountants, bankers, and financial advisors, is central to these tax avoidance practices because these intermediaries work to identify the gaps and differences between national tax regimes which may then be exploited for legal tax avoidance. An inside look at their practices and procedures is exposed by the leaked material, most especially in documents from the law firms at the centre of the Panama Papers and Paradise Papers leaks. The practices employed by MNCs are explained in the next subsection, followed by a subsection explaining those used by HNWIs.

Corporate Tax Avoidance Practices

The collection of documents known as 'Lux Leaks' represent advance tax rulings (also known as 'comfort letters') for a large number of MNCs with a subsidiary registered in Luxembourg. An advance tax ruling provides the MNC with a clear expectation for future taxation and many jurisdictions use these rulings to provide comfort to MNCs about their tax obligations, especially when the MNC may consider locating an office or subsidiary in the jurisdiction. In the case of Luxembourg, these rulings were used by MNCs to minimise their total, global, tax obligations using a Luxembourg subsidiary. The MNCs transferred income from other subsidiaries where that income would have been taxed at a higher rate in order to legally benefit from the

[5] See the website for the International Consortium of Investigative Journalists (ICIJ) at https://www.icij.org/ (last accessed 3 August 2017).

lower tax rate guaranteed by the advance tax ruling. The methods used to transfer income varied between MNCs, but all methods arbitraged differences in national tax legislation and may have benefited from financial arrangements originally intended to promote economic development and business growth. The public revelation of these confidential tax rulings led the government of Luxembourg to identify and prosecute the whistle-blowers. It also led the European Commission to open investigations into some of the advance tax rulings offered by Luxembourg and other EU Member States under the argument that they represented illegal state aid (Brunsden 2017; Jaeger 2015).

The Lux Leaks case represents an example where the jurisdiction engages in economic (tax) competition with other jurisdictions in order to attract business. In this instance, the physical presence of the business in many cases was limited. Nevertheless, and even at the very low rates of tax set in the tax rulings, the revenue collected still was a positive contribution to the Luxembourg treasury. Moreover, as noted in the *Financial Times* article referenced earlier, the European Commission found that 26 of the 28 EU Member States provided advance tax rulings to corporations. The use of a Luxembourg subsidiary to benefit from an advance tax ruling is but one example for structuring an MNC to facilitate tax avoidance (see also Xu (Chap. 27), this volume). The use of an 'international business company' (IBC) in the organisation structure of an MNC can serve several functions in addition to tax avoidance, including separability of ownership and risk, to establish a joint venture with another MNC in a third jurisdiction, and to gain access to foreign investors. The online *Financial Times* lexicon entry for tax avoidance provides a graphic from an article published by the newspaper in April 2014 depicting the 'corporate inversion' process undertaken by US MNCs to reduce or eliminate the payment of corporate income tax to the US government on the MNC's overseas (non-US) income.[6] Simultaneously, this graphic depicts the 'Double Irish' corporate subsidiary structure used to avoid paying corporate income tax in Ireland, a legislative loophole that since has been closed as one result of the intense focus placed on corporate income taxation in the EU following the Lux Leaks revelations.

The pressure focused on MNCs engaged in tax avoidance (or 'tax minimisation' as some proponents describe it) following the financial crisis included legislative committee hearings held in the United Kingdom and the United States looking at the tax practices of large MNCs in 2012 and 2013 (Committee on Public Accounts 2012; Permanent Subcommittee on

[6] See http://lexicon.ft.com/Term?term=tax-avoidance (last accessed 18 July 2017).

Investigations 2013). The MNCs investigated had used the variance between different jurisdictions' tax legislation in addition to advance tax rulings to shift income from high-income tax jurisdictions to low-income tax jurisdictions. The 'Double Irish' strategy utilises differences between Ireland and other jurisdictions when determining the corporate entity's legal residence in order to establish its tax residence. It leads to a situation where Apple's subsidiaries were deemed tax resident nowhere and therefore not paying income tax anywhere on the foreign profits they were aggregating. All done legally and with the proviso that US corporate income tax would be paid on this income at such a time that it was repatriated to the United States (Vlcek 2017, 51–55).[7]

The more recent Paradise Papers contained documents revealing that Apple had the law firm Appleby (Bermuda) investigate options for a transnational corporate structure to replace its use of Irish corporate subsidiaries (Drucker and Bowers 2017). The Irish tax regime was changed as a result of EU pressure, and from 2020, Apple could have found itself paying the Irish corporate income tax for all income declared by its Irish subsidiaries (Boland 2014). The case of Apple provides a profound example for the problem of BEPS described by the OECD. Through its corporate structure, Apple succeeded in shifting profits to a subsidiary that was then not subject to corporate income tax. At the same time, shifting the untaxed income served to erode the tax base for every territory in which Apple had sold its goods and services.

Wealthy Individuals and the Role of Tax Avoidance Intermediaries

The use of foreign-registered subsidiaries to own property is not limited to MNCs. The investigations of the International Consortium of Investigative Journalists (ICIJ) revealed not only specific individuals (including government officials) concealing wealth offshore, but it also highlighted a 'wealth management' industry that had been even less well known to the general public than were the tax avoidance practices it employed (Harrington 2016). The analysis conducted by the ICIJ of the Offshore Leaks data documented the network of intermediaries employed by wealthy individuals and revealed by the records leaked from a Jersey-based private bank and a Bahamas-based corporate registry firm. One example for the activity of these intermediaries is

[7] The payment of outstanding federal US corporate income tax will now be made following the passage of the new US tax legislation in December 2017.

to set up an IBC for an individual in a jurisdiction other than where they reside. This company in turn may own assets and have financial accounts in its name, while the name of the beneficial owner may not appear on any of the company registration documents.[8]

One common asset owned by an IBC will be a private residence, a practice that has been subjected to close scrutiny for several years. It has been one way of avoiding taxes related to the sale or transfer of the property, by selling or transferring ownership of the company that 'owns' the residence which does not get recorded as a property transaction because the owner of record for the residence did not change. Admittedly, not everyone using a company to own their home is doing so in order to avoid taxes. For some people, this technique is used to achieve privacy when property ownership records are a matter of public record and open access. One example found in the Panama Papers involved Emma Watson because the actress owned her London home through a company registered in the British Virgin Islands in an attempt at gaining some privacy from fans and paparazzi. All of these methods for tax avoidance using an IBC also can, and have been, used to conceal wealth originating from crime and corruption, but this topic is beyond the scope of the chapter (see, e.g., Cooley and Heathershow 2017).

The OECD's development of a CRS with automatic exchange of account information between countries seeks to overcome the use of foreign bank accounts and foreign IBCs to avoid individual income taxes. But in addition to collecting and exchanging information on bank account holders, it is necessary also for governments to collect and exchange information on the beneficial owner for the IBCs that are registered in their jurisdiction. The latter task may involve legislative changes to mandate the recording, collection, and retention of beneficial ownership data. It further may require measures designed to 'look through' corporate ownership when the listed beneficial owner for an IBC is simply another IBC or other legal entity.

Tax Avoidance Is Not a Global Issue?

The discussion to this point has been somewhat biased towards the OECD and its member states, indicating the prominence allocated to tax avoidance by the large developed economies. These issues are different for a developing

[8] These structures can be quite intricate; please explore the Offshore Leaks Database at the ICIJ website for examples, https://offshoreleaks.icij.org/.

economy where the state shapes the tax regime to attract FDI and natural resource MNCs negotiate long-term contracts and where the resident HNWI may be involved in grand corruption and capital flight. In light of this situation, the concerns with tax avoidance outlined in the previous section actually may be regional rather than global in nature. This observation highlights the fact that the nexus for international taxation policy is not at the United Nations, but at the OECD in Paris, with its majority membership consisting of states identified as the 'Global North'. It is a criticism recognised by the OECD, as evidenced in its efforts to draw attention to its inclusiveness and the contributions of non-Member States to its tax programme (Ring 2016, 1803–1808). The 'About' page of the OECD website for the BEPS project is titled 'About the Inclusive Framework on BEPS', foregrounding its 'inclusive' orientation.[9] The text describes the involvement of more than '80 developing countries and other non-OECD/non-G20 economies' in meetings where the BEPS framework has been discussed. It rightly acknowledges the 'heavy reliance on corporate income tax' among these developing countries but fails to reference the point that this reliance is partly due to the reduction of import tariff regimes under pressure from OECD states (operating through the World Trade Organization) to liberalise their economies (Swank 2016). Tax campaigners may criticise the tax minimisation practices of extractive industry MNCs in Africa, as one example, but the problem is far more complex than simply the use of foreign subsidiaries and transfer pricing (Vlcek 2013, 212–214). There is also the nature of any advance tax ruling provided by the government to attract the foreign investment and the specific contents of the contract between the government and the MNC, which may be treated as a 'state' secret (Sikka 2011).

The broader complexities of taxation in a developing economy are beyond the scope of this chapter. It can be agreed that implementation of BEPS throughout the world economy will help to reduce tax avoidance by MNCs. Any reduction, however, occurs in the aggregate for the MNC, and it will not necessarily lead to higher corporate income tax collection among host countries outside of OECD Member States. The latter point was recognised in a meeting of the African Tax Administration Forum in April 2014 to discuss the OECD's 'New Rules of the Global Tax Agenda' and their implications for African economies. The Outcomes Document released after this meeting emphasised 'The OECD BEPS process notwithstanding, Africa must protect its own tax base' (African Tax Administration Forum 2014). This viewpoint

[9] See http://www.oecd.org/tax/beps-about.htm (last accessed 22 September 2017).

was explored in more detail for three of the 15 action items that comprise BEPS. After analysing the implications from implementing these action items, the general conclusion was that cooperation with the OECD was necessary, even when local capacity among some African states may limit the extent of local implementation. Yet they also should consider the impact BEPS may have on attracting FDI and the ability to protect their domestic tax base, in order to retain the ability to collect their fair share of tax from the income of foreign MNCs. One suggestion made for protecting that domestic tax base was to follow the guidance of the UN Model Tax Convention instead of the OECD Model Tax Treaty (Oguttu 2017).

The survey results from a sample of seven developing economies in 2017 reinforce the perspective of the African Tax Administration Forum on the impact of BEPS for its Member States. The complexity present in some of the BEPS action items are currently beyond the capacity of some developing economy tax administrations and may require legislative changes and modifications to existing trade treaties, in order to achieve effective implementation. Another issue explored in the report highlighted the fact that joining the OECD's Inclusive Framework offers the developing economy 'equal footing in determining (future) BEPS-related issues' (Barrogard et al. 2018, 7). In other words, the non-OECD member developing economy is invited to participate in and advance an international tax agenda that has already been agreed, without its tax avoidance concerns included in the creation of this agenda. Consequently, it consists of action items only partially consistent with the issues of concern for a developing economy regarding the taxation of foreign MNCs. Work to address the issues with 'Protecting the Tax Base of Developing Countries' has been conducted through several United Nations' forums, including the Financing for Development Office. A number of methods to help developing economy tax administrations deal with BEPS have been proposed, but the fundamental challenge remains one of limited domestic capacity (Trepelkov et al. 2017).

In closing, this chapter introduced the phenomenon of tax avoidance and some of the complexities and contradictions surrounding the concept and its location in the contemporary international political economy. Taxation is at the heart of the modern state and the provision of public goods. Consequently, questions of taxation and tax avoidance are inherently political, all philosophical debates over fairness aside (Lasswell 1972 [1936]; Pogge and Mehta 2016). In turn, multilateral initiatives to counter tax avoidance rehearse the power dynamics present in the world economy, weighing solutions on the side of the Global North with limited regard for features supporting the revenue needs of developing economies. Solutions for tax avoidance are complex, not

simply for the technical complexities of international taxation but also for the political hurdles to be overcome in pursuit of some form of interstate equity regarding the distribution of the tax base (Dietsch and Rixen 2014).

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23

The United Nations Framework Convention on Climate Change

Tim Cadman

The Political Economy of Climate Change in the Context of Sustainable Development

The United Nations Conference on Environment and Development (UNCED), also known as the 'Earth' Summit, held in Rio de Janeiro in 1992, marks the point at which sustainable development was formally adopted as an intergovernmental policy norm, articulated in the outcome document, *Agenda 21* (UN 1993).[1] The conference generated three international agreements (UN Convention on Biological Diversity, CBD—1992; UN Framework Convention on Climate Change, UNFCCC—1994; and the UN Convention on Combatting Desertification, 1996), as well as the (non-legally binding) *Statement of Forest Principles* (1992). *Agenda 21* referred specifically to 'eco-

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[1] Defined as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs' (Bruntland 1987, 41).

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nomic and market-oriented approaches' as a way of meeting the twin objectives of environmental protection and economic growth (UN 1993, 70; Jacobs 2012, 4–5). These have generated various enabling policy instruments, including protocols aimed at operationalising their respective Conventions, such as the UNFCCC's 1997 Kyoto Protocol (KP), and via market-based approaches: in the case of KP, the Clean Development Mechanism (CDM).

The international community post-Rio has confronted a number of institutional challenges as to how to integrate these multilateral environmental agreements into the broader political landscape. Climate change policy in particular has resulted in the emergence of what has been termed a 'regime complex', compounding the long-recognised problem of 'silos' in international affairs, and leading to negative environmental trade-offs (Victor and Keohane 2010; Stiglitz 2003, 62–63; Pittock 2013, 144). All these factors make combatting climate change 'in the context of sustainable development and efforts to eradicate poverty' (UNFCCC 2015, 22) one of the greatest challenges of the contemporary era. From an analytical perspective, it is important that the environmental and social impacts of anthropogenic climate change are taken into account when viewing developments in the international political economy of contemporary post-industrial modernity.

Institutional Structures and Processes of the Climate Change Convention[2]

The 26 Articles of UNFCCC constitute an international treaty that is operationalised through a series of institutional arrangements aimed at delineating the various structures and processes that were thought at that time to be sufficient for combatting climate change. These arrangements are broadly outlined later, but it should also be noted that various elements have been added, or superseded as time has passed, notably the 'ad hoc' working groups, which are created to address specific issues for negotiation as they arise. The Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP), for example, was instituted in 2011 to delineate the parameters for what was to become the 2015 Paris Agreement (PA); its negotiations were subsequently

[2]To understand the regime visually, readers are encouraged to visit www.climateregimemap.net, where there are two versions available: the regime up to 2015, and the 'post Paris' map. Readers are also warned that this chapter includes extensive use of acronyms.

advanced through the Ad Hoc Working Group on the Paris Agreement (APA) (UNFCCC 2014a, b).[3]

Formal decisions regarding the many and varied political and institutional aspects of the Convention are made by the Conference of the Parties (COP), first convened in 1995 (UNFCCC 2014g). The COP Bureau was created to assist COP and the Climate Change Secretariat (CCS) during conferences but also when COP is not in session. It consists of representatives of governments from the five UN-wide regional groupings and the Convention's permanent subsidiary bodies (see later) also have a position each (UNFCCC 2014e, n). Two other significant bodies are related to COP: the COP serving as the meeting of the Parties to the Kyoto Protocol (CMP), which first met in 2005; and the more recent COP serving as the meeting of the Parties to the PA (CMA) (UNFCCC 2014h, i).

The Convention's Protocol, Agreement and other decisions, are largely operationalised through its two permanent subsidiary bodies: the Subsidiary Body for Implementation (SBI) and the Subsidiary Body for Scientific and Technical Advice (SBSTA).[4] As its name suggests, SBSTA works largely on methodological and technical matters associated with the Convention and focuses on issues around national greenhouse gas (GHG) inventories, research and systematic observation of the climate system, as well as adaptation issues (such as climate vulnerability), and mitigation actions (such as the methodological aspects of KP) (UNFCCC 2014q). As part of its remit, it also oversees the Nairobi Work Programme (NWP), which develops and disseminates information regarding adaptation. SBI convenes meetings on a number of negotiating streams and focuses on the implementation aspects of KP, and now also PA, as well as playing a role in financial and administrative matters more generally (UNFCCC 2014p). Both bodies function between COPs and follow a range of discussions, including the Warsaw International Mechanism for Loss and Damage (WIM, or loss and damage mechanism), which seeks to tackle the thorny issue of how to address the financial impacts of climate change, as well as the Technology Mechanism (TM) and the Adaptation

[3] Citations from unfccc.int follow the publication date on the web page. Note also that content is not static; to view static content, visit http://www.climateregimemap.net (pre- and post-Paris Agreement versions).

[4] Similar bodies exist under the *Convention on Biological Diversity* (CBD)—the Subsidiary Body on Scientific, Technical, and Technological Advice (SBSTTA) and the Subsidiary Body on Implementation (SBI).

Committee—all of which also have institutional lives in their own right (UNFCCC 2014d, s, No date).[5]

Initially playing a role in assisting the climate negotiations, the CCS is permanently based in Bonn and with over 500 staff provides support to the many institutional subcomponents of the Convention (UNFCCC 2014o). It is headed by an Executive Secretary (currently Patricia Espinosa), although day-to-day oversight is more under the purview of the senior management. Despite its stated role, there is some evidence that CCS exerts political influence in its own right, including over policy decisions, decision-making, and consultation processes (Michaelowa and Michaelowa 2017). This stems from its wide-ranging procedural, technical, and executive roles, but in reality, its genuine autonomy remains limited, given the supremacy of Parties in the negotiations, and the difficulty of the problem of climate change itself (Busch 2009). Another impediment lies in the constantly changing dynamics within the climate negotiations. Consequently, the CCS lacks a permanent public institutional justification for its existence (Cadman 2015; Breakey et al. 2017).

Behind the COP, its formal agreements, and the subsidiary bodies that support them are the mechanisms through which the Convention and its decisions are implemented. This term is used to describe a range of activities. These include issue areas and elements still under negotiation, such as those around loss and damage under WIM, or the proposed new market-driven Sustainable Development Mechanism (SDM) of PA, as well as specific policy instruments such as the CDM or TM. Another new mechanism of note arising out of Paris is the 'mechanism to facilitate implementation of and promote compliance with the provisions of this Agreement' (Article 15—the implementation and compliance mechanism, or ICM). It is not clear at this stage whether ICM will complement, or replace, the existing Compliance Committee under KP. Institutionally, the Finance Mechanism (FM) is by far the biggest and most important since it is designed to provide the funds necessary for Southern countries to implement the provisions of the Convention and without which little could go forward. It is overseen by the Standing Committee on Finance (SCF) and consists of several funds. Some of these are managed by the Global Environment Facility (GEF): the Special Climate Change Fund (SCCF) and the Least Developed Countries Fund—LDCF; there is also an Adaptation Fund under KP and the Green Climate Fund (GCF). In addition to these are the non-UNFCCC financial mechanisms,

[5] At the time of writing (February 2018), both bodies had convened 47 times.

which fall under bilateral, multilateral, and regional arrangements, but which still contribute to 'climate finance' overall (UNFCCC 2014f).

A plethora of implementing agencies, state and non-state, are responsible for implementing projects and programmes funded under the Convention, which occurs largely at the national level. For mitigation, under the Bali Action Plan, concluded at COP 18 (Doha), Southern countries agreed to put in place nationally appropriate mitigation actions (NAMAs) (UNFCCC 2014k). In the case of Adaptation, this occurs under the auspices of National Implementing Entities and through national adaptation plans (NAPs) and programmes of action (NAPA) (UNFCCC 2014c; Adaptation-Fund 2015). Much of these national activities will now take place under the new 'bottom-up' structure of meeting climate commitments under Nationally Determined Contributions (NDCs).

UNFCCC and its many elements take their scientific guidance from the Intergovernmental Panel on Climate Change (IPCC), established before the Convention in 1988 by the World Meteorological Organisation (WMO) and the United Nations Environment Programme (UNEP). IPCC systematically reviews existing knowledge and provides what are referred to as Assessment reports (AR) to inform policymaking under the Convention; the sixth AR will be provided in 2022 in the lead-up to the 'global stocktake' of climate actions by 2023 under Article 14 of the PA. While the IPCC has made various claims over the years around the theme that it is policy-descriptive rather than policy-prescriptive (IPCC No date-a, b), it has not been without its controversies. Some are to be found in 'sceptic' opinion editorials in the popular press, or are promulgated by such contrarians as Lord Monckton, and include allegations of inappropriate citations of non-academic literature as well as speculative claims about glacial melt (Devine 2010, n.p.). Others are from more credible sources, and concern self-censorship for political purposes, rather than outright scientific fabrication (Howard 2014, n.p.).

Interest Representation of State and Non-state Actors in the Convention

COP participants are broken down into formal and informal regional groups, for both geopolitical and financial reasons. Regions represent both the conditions of economic development, and therefore which regions (and countries within them) constitute, in UN-language, 'contributing' countries and 'recipient' countries of climate finance. In addition to the five regions, the 50 least developed countries (LDC) are also formally recognised, as is the 43-member

Alliance of Small Island States (AOSIS). There are smaller groupings, such as the Environmental Integrity Group (EIG—Mexico, Liechtenstein, Monaco, the Republic of Korea, and Switzerland) formed in 2000, and larger, more well-known blocs, such as the Group of 77 (G77). Other strategic groupings include the Umbrella Group (UG; Australia, Canada, Japan, New Zealand, Norway, the Russian Federation, Ukraine, and the United States) and the curiously named Like Minded Southern Countries, an odd mix of oil countries and countries heavily impacted by climate change (Cadman 2015; Cadman et al. 2017). Economically, COP is divided into Annex I countries recognised as being industrialised as of 1992 by the intergovernmental Organisation (IGO) for Economic Co-operation and Development (OECD) and the economies in transition (EIT—such as Russia); the 'Annex II' countries consist of Annex I less the EIT, and they are expected to provide financial resources to assist Southern countries (especially the LDCs) reduce their emissions under the Convention (UNFCCC 2014m). Other country groups exist such as the Organisation of Petroleum Exporting Countries (OPEC) and the League of Arab States (UNFCCC 2014n). Although only signatory governments ('Parties') get to make decisions, large numbers of other governments with interests attend as observers, including IGOs, non-governmental organisations (NGOs—formally broken down into business and industry, environment, local government and municipal organisations, farming and agriculture, labour unions, research and academic organisations, youth, women, and gender) (Cadman 2015, 47), and specialised agencies of the UN (UNFCCC 2014l). Negotiating sessions are often closed to observers, which restricts non-state actor involvement, even in this limited capacity (Nasiritousi and Linnér 2016).

Early History of Convention Mechanisms

The KP of 1997 operationalised the Convention during an historical period in which neo-liberal market ideologies gained international political traction. This was expressed in the preference for mitigating (reducing) GHG emissions through market-based instruments, the so-called flexible mechanisms of international emissions trading (IET), joint implementation (JI), and the CDM. In 2005, the European Union followed suit, creating an Emissions Trading Scheme (EU ETS), which from 2008 permitted the purchase of 'carbon credits' (referred to as certified emissions reductions—CERs) from projects established under the CDM, as well as JI projects (Cadman 2013b; Cadman et al. 2015; UNFCCC 2014j; see also DiMuzio and Dow (Chap. 34), this volume).

KP set a legally binding target for reducing GHG (notably carbon dioxide) by at least 5.2 per cent against 1990 reference levels during the period 2008–2012. Of the three flexible mechanisms, only the CDM is truly global in scope. It transfers finance and technology to Southern (or 'Non-annex') countries from Northern, Annex I countries, which have signed the KP and agreed to provide funds. The mechanism was designed with the objectives of enabling Northern countries to meet their GHGs by 'offsetting' industrial emissions and supporting sustainable development in host nations—while delivering additional emission reduction that would not otherwise have occurred (so-called additionality). Brazil registered the first project in 2004. The number of registered CDM projects grew from 62 in 2005 to more than 7000 by the end of the first commitment period, and more than a billion tonnes of carbon dioxide emissions were offset (Maraseni and Cadman 2015, 2–3).

The focus on mitigating (reducing or avoiding) atmospheric processes changed markedly between COP 7 in Marrakesh in 2001 and COP 12 in Nairobi in 2006, when—often Southern—countries began to stress their vulnerability to—and the need for adaptation to (or coping with)—climate change. This resulted in the reframing of climate change as a social as well as an environmental issue in need of increased finance for capacity building in Southern countries in response. This did not particularly affect Southern country activities around the implementation of the KP, but it introduced uncertainty as to what the post-2012 climate policy landscape would look like, and how it would impact on the use of market mechanisms for mitigation. The underlying problem with KP was its focus only on Northern countries' obligations to reduce emissions, and its inability to accommodate those countries whose developmental status had changed since the original protocol was put in place, notably China and India, who benefitted considerably from CDM projects—almost to the exclusion of all other countries (Cadman et al. 2015).

More Recent Developments of the Convention's Policy Instruments

The expectation-laden COP 15 of 2010 in Copenhagen failed to deliver a binding climate agreement, even if it lent traction to the concept of NDCs as a multilateral approach to reducing emissions, and created a space for negotiations on a KP replacement to continue (Radunsky and Cadamn 2017, 256). In 2012, the CDM was declared to be 'imperilled' (CDM-Policy-Dialogue 2012a, 2), and it was predicted that 'if nations permit the CDM mechanism

to disintegrate, the political consensus for truly global carbon markets may evaporate' (CDM-Policy-Dialogue 2012b, n.p.). As a result of the Doha Amendment (DA) at COP 18 later in the year, a second KP commitment period was agreed to, with expectations that the signatories would reduce their emissions by 18 per cent in the period 2013–2020. In reality, however, DA covers only 15 per cent of total global emissions, and several of the original KP countries did not sign up (Maguire 2015, 38).

Reducing emissions from forest activities was introduced into the negotiations in 2005 and seems to have successfully navigated the shoals of CDM, while still existing as a mitigation-oriented initiative in its own right. This may be due to its introduction into another of the Convention's negotiating streams around land use, land-use change, and forestry (LULUCF), and, it has been suggested, by having found favour as a mechanism with some IPCC authors (Fry 2013). An attempt to get forests back into the mitigation debate, the proposed policy mechanism evolved over the years from 'reducing emissions from deforestation' (RED) to 'reducing emissions from deforestation and forest degradation' (REDD) and finally, after COP 15, to REDD+. Funds allocated to programme participants to date constitute payments to assist Southern countries 'in building their capacity to benefit from…future systems of positive incentives for REDD+' (FCPF 2017, n.p.).[6] A number of UN-mandated agencies support the programme. UN-REDD assists target countries in their preparatory phase, known as 'REDD+ readiness', by means of global and regional-level assistance, and in implementing national-level programmes. These programmes are often delivered jointly with the Food and Agriculture Organisation (FAO), The UN Development Programme (UNDP), and the UNEP (UN-REDD 2009). The UN Multi-Partner Trust Fund Office (MTFO) manages the disbursement and accounting of these monies, delivered through a range of funds, and totalling over US$ 3.5 billion between 2008 and 2017. Donor countries include Canada, Denmark, Finland, France, Japan, Luxembourg, Norway, Spain, Sweden, Switzerland, and the EU.[7] Assistance is also provided by the World Bank's Forest Carbon Partnership Facility (FCPF), which operates two funds: the Readiness Fund, and the Carbon Fund, which provide financial support for the technical aspects required in the generation of Readiness Preparation Proposals (RPPs)

[6] The Green Climate Fund has agreed to allocate US$ 500 million over the period 2013–2019, to purchase forest carbon at a price of US$ 5 per tonne; however, these funds are to be used in the context of Nationally Determined Contributions (NDC) implementation and not as transferable offsets (email to the author 02 October 2017 from undisclosed sender).

[7] Web search conducted 08 September 2017 http://mptf.undp.org/tools/search?q=REDD&qc=project.

and Emissions Reduction Programmes (ERPs). Total contributions and commitments to date exceed US$ 1 billion (FCPF 2017, n.p.).

Several agreements have been made between different Northern and Southern countries regarding REDD+. The Copenhagen Accord arising from COP 15 in 2009 identified a portion of the US$ 100 billion of climate funding for forest-based reduction activities (Maraseni and Cadman 2015, 4). The governance challenges confronted by countries giving and receiving potentially considerable funds were acknowledged at COP 16 in Cancún in 2010 where the parties negotiated an agreement referring to 'guidance and safeguards' for 'transparent and effective national forest governance' as well as the 'full and effective participation of relevant stakeholders, in particular indigenous peoples and local communities' subject to 'national legislation and sovereignty' (p. 26). Article 72 also acknowledges 'land tenure issues, forest governance issues, [and] gender considerations' (UNFCCC 2011, 13). Further recognition of safeguards occurred in the context of COP 17 in Durban in 2011, with the publication of a range of guidelines by REDD+-related agencies (FCPF 2011; UN-REDD 2012). These provisions and a suite of other institutional arrangements were further codified under the Warsaw Framework for REDD+ at COP 19 in 2013 (UNFCCC 2014r). Progress on REDD+ negotiations stalled in 2014 at COP 20 in Lima, possibly on account of the build-up to Paris COP (2015), where a broad agreement on the future of market-based instruments—including the CDM—was expected to be determined (Radunsky and Cadman 2017, 256).

Future Directions for the Convention Post-Paris

The PA has important policy implications for many aspects of the international climate regime (notably regarding monitoring and reporting, as well as finance and capacity building), this is particularly the case for CDM and REDD+. Article 5 reaffirms the 'results-based payments' approach to emissions reduction, and the 'existing framework' under which REDD+ currently operates, while calling for 'alternative policy approaches' (UNFCCC 2015, 22). Article 6.4 lays the groundwork for the establishment of a 'mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development' (the 'SDM'), but it does not refer to CDM (UNFCCC 2015). The reasons behind segregating the SDM and REDD+ appear to be the result of division between Parties and represent an attempt to maintain a role for voluntary market-based emission reduction activities on the one hand, and an increasing push for government control and non-market-based

approaches, on the other (CIFOR 2017). The Agreement differs considerably from the largely top-down model of KP and pays much greater regard to non-state actors, voluntary initiatives, and the private sector. While the agreement places some obligations on the state, notably around the reporting and recording of emissions, these are in the context of their NDCs (Glynn et al. 2017, 8).

The Agreement's 29 Articles and 117 Decisions lay out a comprehensive agenda with the intention of 'Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels' (Article 2.1a, p. 21). Actions to reduce emissions are expected to be universal and are no longer confined to Northern countries, and are to be pursued 'in the context of sustainable development and efforts to eradicate poverty' (Article 2.1, p. 22). To these ends, the Agreement covers how activities for adaptation and mitigation are to be financed (Article 9) and reported (Article 13). While the Agreement insists that Northern countries 'shall' provide finance and stipulates a 'floor of USD 100 billion per year' (Decision 53, p. 8), it is less clear about how this will occur. In addition to the transparency frame(TF) work for reporting on action and support (Article 13), there is also a capacity-building initiative, to which Northern countries 'should' contribute (Article 11.1, p. 29). In addition to this level of uncertainty regarding funding, in both Articles 13 and 11, Southern countries (including LDCs and AOSIS members) are not obliged to report on receipt of funds ('should' rather than 'shall'), which will make tracking implementation more difficult. It is to be hoped the discussions aimed at finalising the Agreement's 'rulebook' by 2018 will clarify these and other arrangements (Bisiaux 2017). If not, commencing the new commitment period by 2020, and reporting its successes (or failures) up to 2030, as stipulated under the Agreement (Decisions 23 and 24), will not be easy. In this case, PA would constitute a rerun of the intractable negotiations of KP, which would not be good, given that atmospheric concentrations of CO_2 are now at 400 parts per million (ppm), well above the 350 ppm required to stay within 2 °C (Parnell 2013).

Transparency and accountability of climate finance has long been a problem in the Convention. It is to be sincerely hoped that the TF of Article 13 will address some of the poor governance of climate finance at the national level. The example of cyclone-proof housing costing US$ 1400 per unit and unfit for habitation is a stark reminder of what can go wrong in the absence of strong oversight and accountability; hence the call by NGOs for governance standards for climate finance on both the demand and supply sides (Khan 2014; Transparency-International-Bangladesh 2017). In view of the

new transparency arrangements to be built in, and the recognition of the need for improved frequency and quality of reporting in PA (Decision 92), such governance standards are essential, rather than desirable (Cadman 2013a, 254).

Final Observations on the Convention

The success of the UNFCCC is ultimately down to its 197 signatories and will either stand or fall on the collective commitment of its Parties. Northern, developed, countries seem to struggle with maintaining consistent approaches, as governments of different political persuasions often reverse more progressive policies of their predecessors. Australia is a case in point, notably around emissions trading (Warren et al. 2016, 6–7; Crowley 2017). In the United States, while the Clinton administration ratified KP, the Senate would not endorse it. George Bush Sr. refused to do, asserting he was 'not going to let the United States carry the burden for cleaning up the world's air' (Goyal 2015, footnote 21, p. 123). After his diplomatic fumbling at COP 15, Obama adopted a wiser policy of engaging China and pushing for an agreement in Paris that did not require the endorsement of Capitol Hill—especially regarding the sensitive topic of funding (Radunsky and Cadman 2017; Davenport 2014; Bécault and Marx 2017). Although the current incumbent no longer supports PA, businesses, cities, and numerous states of the Union are still in on the deal, and it remains possible that the United States will meet its emission reduction targets regardless and that other actors will step it to meet the US climate science-funding shortfall (Mathiesen 2017, n.p.; Darby 2017, n.p.).

Southern countries, on the other hand, face the difficulty of reconciling economic growth with sustainable resource management (see Nem Singh (Chap. 33), this volume). Indonesia has the world's third largest area of rainforest by country, but it is also the world's third largest emitter of GHGs, as a consequence of its extensive land conversion and forest burning for conversion to palm oil plantations (Atkinson 2014, 253; Schmitz 2016, 80). Brazil, like Indonesia, is a supporter of REDD+ finance to reduce deforestation in the face of increasing GHG emissions, but it appears equally unable to combat illegal logging in the face of accusations of bribery and corruption at state and federal levels and constant pressure to open up the Amazon to landgrabbers (Maisonnave 2017). There are some slightly more positive signs in the second largest rainforest region, the Congo Basin, with the Democratic Republic of the Congo currently being an active player in the climate negotia-

tions, popular with donors, and actively implementing REDD+, although it remains the largest emitter of forest-based GHGs in Africa (Fobissie et al. 2014, 2400–2403; UN-REDD 2018).

The future of emissions trading as a method of combating climate change remains uncertain, which does not instil market confidence. There is still no viable international carbon market, even if some Parties are continuing to push for one, and there is no guarantee Paris will ultimately deliver it. The proposed SDM is clearly linked to markets, but there the debate is whether the SDM will be a continuation of the CDM or replace it (CIFOR 2017). However, there is a collective desire to continue to encourage emissions reductions activities through REDD+, but it is not directly linked to markets. However, separating Articles 5 and 6 avoids explicitly ruling out an international mechanism for forest-based carbon offsets. Future discussions will hinge around whether the mechanism will deliver results-based payments through REDD+ projects and/or via other programmes seeking to generate negotiated offsets (GRET 2016, n.p.). The fact that Article 6.3 refers to 'internationally transferred mitigation outcomes' (ITMOs) between national governments may pave the way for a future trading system, either with or without a complementary voluntary market (UNFCCC 2015, 25).

Whether the Convention will actually *solve* climate change is already certain: it will not. The point at which humanity could have acted decisively to avoid global warming has already passed. The planet, and its inhabitants, must live with the consequences for the next 100,000 years or so, by which time the remaining excess carbon dioxide in the atmosphere that cannot be removed by mitigation is finally processed by the earth's own systems (Becken and Mackey 2017, 72–73). However, what is agreed to now—and implemented—will determine whether tomorrow's generations will live within a tolerable or intolerable environment. That is entirely dependent on how much carbon we put into or remove from the atmosphere today.

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24

Advancing the 2030 Agenda for Sustainable Development

Cristina D'Alessandro and Hany Besada

The adoption of the Millennium Development Goals (MDGs) in 2000 has been an achievement by itself. They have been in fact the First World's shared goals, the first global agreement to try to end extreme poverty with its main collateral effects. The United Nations (UN) System has been a critical partner in the entire process: to set the MDGs in place, to provide leadership, policy advice to various sets of actors about the mechanism around which the MDGs have been rolled out. It also provided capacity building, training, finances to governments, and non-governmental organizations (NGOs). The MDGs have in fact expired at the end of 2015 and, while their evaluation and critiques are being progressively analysed, the post-2015 development agenda has been prepared. The Sustainable Development Goals (SDGs) have been formally adopted in 25–27 September 2015.

Even before the deadline approached, it became evident that the MDGs would not have been achieved by anyone and that huge disparities exist

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between countries and regions around the world, not to mention internal disparities within single states. Nevertheless, results and progress are undeniable and have been measured and quantified around the world. The MDGs Report 2014 states, for instance, the results obtained have reduced extreme poverty by half at the global scale. Other important results have been reported for health, education, and women empowerment (UN Inter-Agency and Expert Group on MDG indicators 2014). The Report concludes that several MDG targets have been met and substantial progress has been made in most areas, but much more effort is needed after 2015 to reach the set targets. The MDGs Report 2015 highlights that the poorest and most vulnerable people are still left behind. This last report emphasizes issues opening the path to the SDGs: inequalities between urban and rural areas, climate change and environmental degradation, and conflicts remaining the major threat to human development. Major challenges still exist at the end of the MDGs era, especially related to the persistence of gender inequality and poverty, where millions of people still live in hunger and poverty, without any access to basic services (UN Inter-Agency and Expert Group on MDG Indicators 2015).

First and foremost, the MDGs' agenda has proved that global action works, despite its challenges and intrinsic limitations. The MDGs' experience shows that it has been positive, that global goals and frameworks, as well as wide agreement and commitment towards a unified process, are useful, as they have produced results. Nevertheless, the world was not the same in 2015: the sizeable and rapid changes that have occurred from 2000 to today call for a consequent adaptation of the goals and strategies to achieve them. More than two decades ago, development was considered as a process that had to be objectively measured and evaluated, for which practical and compelling results counted more than philosophical and theoretical principles. Managing for development results (MfDR) and financing for development (FFD) have set in place a new development landscape. They have pointed out that hereafter results and the way to finance these processes of change are what really count.

It has in fact to be underlined that, besides the goals themselves, the MDGs have carried out a wide discussion on the most appropriate tools and methods, as well as on the marshalling of financial resources to reach the expected results. The 'data revolution',[1] the need for development to be sustainable, the fight against inequalities in all its forms, the FFD, the need for clean and reliable energy, and the urban concerns are some among the most important

[1] The data revolution is the availability and accessibility of quality and timeliness statistics to be integrated into public and private sector decision-making.

'side goals' arising from the MDGs but not directly addressed by them. These previously mentioned are transversal and/or methodological concerns progressively retaining the attention as crucial targets to keep in mind and central to the achievement of all the development goals. They have shaped the post-2015 development agenda and have been at the core of the formal and informal discussions and consultations, explaining the meaning and design of the SDGs.

Furthermore, the international political economy has rapidly changed in 15 years. New donors (like China, India, Korea, Turkey, Qatar, and the United Arab Emirates among others) have progressively gained importance, not only for the flows of overseas development assistance that they have been producing but also for the strategies, choices, and innovations that they have been engendering to this extent. Compared to the Organisation of Economic Co-operation and Development-Development Assistance Committee (OECD-DAC) model, they showcase alternative and more flexible methods in the field of development assistance. At the same time, some traditional donors like the United States and the UK seem to be declining for the size increasingly modest of their flows over time but also for the rigidity of the conditionalities associated to them.

This chapter presents at first how the post-2015 development agenda has been shaped and built. It subsequently presents its main preoccupations and limitations. It also points out its major thematic priorities. The last section focusses on its implementation and on emerging patterns and strategies, emphasizing the differences with the previous set of goals.

Setting Up a Global Development Agenda and Partnership

The process started in April 2012,[2] when the UN Secretary-General Ban Ki-moon nominated the three co-chairs of a High Level Panel tasked with producing a guiding framework for the post-2015 development process. Almost at the same time, the Rio+20 Conference (http://www.uncsd2012.org/), which took place in Rio de Janeiro, Brazil, on 20–22 June 2012 called for the establishment of a set of SDGs. The outcome document of the Conference (UN System Task Team on the Post-2015 UN Development

[2] The reader may find a useful timeline of the process at the following address: http://www.theguardian.com/global-development/interactive/2013/mar/26/future-of-development-timeline.

Agenda 2012), even if stating that it is too early to define concrete goals and targets, sets the tone of the process. The Report wants in fact to serve as the first reference for the broader consultations that will take place in the following months and years. The vision proposed in the Report focusses on environmental sustainability and puts human rights and equality at the core of the new agenda, signing an important and programmatic shift from the much more concrete and measurable issues at the centre of the MDGs. The document also gives directions to follow for the process itself, indicating that wide consultations will be crucial to forge consensus, as the outcome has to be a global partnership for development.

This is exactly what will be obtained a year later by the work of the High Level Panel of Eminent Persons in charge of drawing up the framework of the Post-2015 Development Agenda. Together with its Secretariat, the Panel has produced and published in June 2013 a Report. This document presents the global partnership as 'a new spirit of solidarity, cooperation, and mutual accountability that must underpin the post-2015 agenda. (…) It is time for the international community to use new ways of working, to go beyond an aid agenda and put its own house in order: to implement a swift reduction in corruption, illicit financial flows, money-laundering, tax evasion, and hidden ownership of assets. (…) It must also have a new spirit and be completely transparent. Everyone involved must be fully accountable' (High Level Panel of Eminent Persons on the Post-2015 Development Agenda 2013: 7).

The post-2015 development agenda, for which developed and developing countries must accept their proper share of responsibility in accordance with their resources and capabilities, needs to be driven by five fundamental shifts[3]: (1) the eradication of extreme poverty in all forms, (2) inequality and inclusive economy transformation, (3) peace and good governance, (4) forging a new global partnership, and (5) the future of sustainable development, given environmental and climate change obstacles. The transformative shift these five fundamental principles are meant to address is a movement away from a static understanding of developmental challenges and towards a dynamic model. One important point the UN High Level Panel observed from the MDGs was that global targets with any degree of local success had to be embedded in national policies. Each national government is henceforth responsible for setting its own appropriate and localized strategies, which will

[3] High Level Panel of Eminent Persons on the Post-2015 Development Agenda 2013, under 'Executive Summary'.

vary from country to country and even city to city. Evidently, local ownership is crucial for a development strategy, and it is an important lesson for the SDGs' agenda. From a methodological point of view, the Report calls for a 'data revolution' for sustainable development, able to monitor and evaluate among others the economic transformation for job creation and inclusive growth, to which the Report gives a central place.

The document produced under the guidance of the High Level Panel has been obtained after a large range of consultations and the Report itself has been widely disseminated and discussed via outreach activities (http://www.post2015hlp.org/outreach/). When it was released, on 30 May 2013, another Report was sent out at the same time (SDSN 2013). The Sustainable Development Solutions Network (SDSN) has autonomously produced it. Very different from the other report, this action agenda identifies ten priority challenges and focusses on each of these thematic areas through thematic networks. These priority areas are very concerned by sustainability and environmental concerns, but the explicit interest in 'making cities productive' is original. The reference to energy, natural resources, and agriculture are also concrete issues that have to be quoted: they have certainly contributed to the attention given by the SDGs to these priorities. In 2015, the SDSN had been integrated into the UN system, becoming the UNSDSN, mainly turned to implement, monitor, and evaluate SDGs' progress.

Now that the Post-2015 Time Has Come

Analysing the MDGs' experience afterwards and now that the SDGs are known and have been adopted, the main challenge remaining without final answer yet is if the actual goals and targets are considered by the majority of stakeholders as a good choice, capable of producing results. Getting large consensus from the variety of stakeholders involved in the implementation of the SDGs at various levels is in fact strategic to obtain results. Nevertheless, one has to acknowledge that it is difficult to set a reasonable number of goals and at the same time include in them all the different aspects that could reflect the large number of different situations existing around the globe. Will the SDGs produce results in developing and developed countries, in different regions, with diversified economic, social, geographic, and demographic situations?

Lack of human, financial, and technical resources are still obstacles to implement effective local ownership for some countries. In these cases, international partners and agencies have to share responsibility for developing and implementing development strategies with local governments. To be clear,

goals, targets, and priorities are differently interpreted from country to country, according to their own localized socio-economic environments, geographies, and histories. Each country is expected to contribute to the targets; however, to what extent and at what speed is the difference. For example, high-income countries may be expected to progress further and faster in clean energy targets, while middle-income countries may be expected to focus on education, healthcare, transparency and accountability in government, and infrastructure. The prevailing point is that low-income countries cannot be expected to focus on the same priorities and achieve the same results and success as middle-income or high-income countries.

More broadly, responsibility for the Post-2015 Development Agenda is shared among a comprehensive group: national governments, local authorities, international institutions, businesses, civil society organizations, foundations, other philanthropists and social impact investors, scientists and academics, and, of course, citizens (High Level Panel of Eminent Persons on the Post-2015 Development Agenda 2013). In fact, shaping popular opinion in support of the Post-2015 Development Agenda is a critical component for which every stakeholder is responsible. Over time, popular opinion and general consensus of a particular topic can develop into an international norm. As a result, the case for its importance is strengthened, and there is a greater probability of success in the standard being met.

The issue of environmental sustainability and its potential causal impacts on developmental progress stress the importance and urgent actions required by the public and private sectors collectively. Yet, as it is evident through lack of a clear and decisive resolution in COP 18 and 19 (The UN Framework Convention on Climate Change), in reality, the willingness and commitment of the states to tackle the ever-growing concerns over the environment remains to be seen. The COP 2012 season, which was held in Doha to no one's surprise, failed to produce a specific commitment from parties, whereas in the 2013 season only modest success was achieved in regards to deforestation agreement. Like before, any binding commitments on emission reductions proved elusive yet again (Paul 2012). While the COP 20 in 2014 did not take any firm resolution and did not state how climate change adaptation will be financed by 2020, especially for developing countries, the COP 21 organized in Paris in 2015 ended with a climate agreement. Although it has been ratified even by the United States and China, the Paris Climate Agreement has been recognized as insufficient to tackle climate change (Huet 2016), and the COP 22 in Marrakech confirmed that different views and interests challenge climate change governance.

As the evidence on the impacts of climate change grows, two realities are becoming clear. First, that the heaviest price for a warming planet will be paid by the world's poorest, particularly in sub-Saharan Africa and other fragile regions. Second, the current configuration of global governance is incapable of addressing this decline and new types of thinking and solutions are desperately needed. In many African countries, the impacts of climate change are already being felt. Rising temperatures and rainfall variance are often described as 'threat multipliers', conditions that exacerbate existing problems on the continent and threaten to overburden states that are already environmentally, socially, and politically risk prone (Tadesse 2010). More frequent droughts and rising energy costs will increase scarcity of water and food resources, particularly among the rural poor. Key pillars of economic development such as agriculture, transportation infrastructure, and health are all sensitive to climatic disruptions such as flooding and drought.

Social and political tensions, already high in many fragile African states, will be worsened by flows of forced migration and heightened competition for scarce resources, threatening stability and peace. These are no longer hypothetical scenarios; the world witnessed many of these outcomes following the 2011 drought in the African Horn. In many Arab countries, too, declining water resources and rising sea levels pose threats to peace, health, and development. Yet while the global state of the environment moves ever closer to thresholds of irreversibility, a solution at the level of national governments appears increasingly out of reach.

The High Level Panel report (High Level Panel of Eminent Persons on the Post-2015 Development Agenda 2013) is a major breakthrough that profoundly puts sustainability at the heart of the development agenda. The report clearly makes the case that poverty is intricately linked to the natural environment and sustainability issues with respect to natural resources. The results were the direct product of other environmental conferences such as COP 18 and 19 that tried to raise the issue of sustainability and impact of carbon emission on the future of development. Clearly, industrialized countries have a fundamental role to play when it comes to tackling poverty and sustainability challenges, both at home and in developing states. It is important to recognize that all major stakeholders have a shared responsibility and joint accountability in advancing the post-2015 development agenda. The challenge now that these bold recommendations and strong aspirations have been shaped into concrete and tangible actions backed by realistic yet bold targets, the SDGs, is to make them work.

To summarize, beyond the different positions and views, there is an agreement on some common points that are transversal, absent from the MDGs,

and critical for the SDGs. Five of them may be considered as the most crucial:

- *A data revolution* is a necessity. Without appropriate and trustable measures, results and progress cannot be properly assessed. This has been a major limitation for the MDGs, especially in developing countries, in sub-Saharan Africa, for example, where data availability and quality are a major challenge.
- *Knowledge production, management, and access* are crucial in an information and communication global society. Knowledge has to be produced and adapted rapidly to a fast-changing world (also through alternative organizations such as policy think tanks), effectively circulated to citizens and to policymakers through adapted technologies and instruments. Scientific knowledge has to inform policies, national strategies, and local actions. Its production and use has to be encouraged in developing countries, still dependent on developed nations producing the bulk of the knowledge available and utilized.
- *Institutional and individual capacity building* is necessary to obtain capable institutions and leaders but also to support implementation and progress towards the success of the SDGs.
- *Social and spatial inequalities are the real challenge of the post-2015 agenda*. In fact, the MDGs have proved that results have been unevenly achieved between countries in the same region but also inside the same country between different local realities (urban and rural areas notably but not only). The SDGs have to address strong and dramatic inequalities, fomenting violence and conflicts.
- *Regional approaches* are needed to complement national needs and responses and to implement the global agenda. Limited regional integration or inefficiencies of regional institutions handicap its implementation and the progress it may produce.

Despite the large and numerous consultations that have given birth to a long participatory process to obtain the SDGs for the period 2015–2030, agreement and consensus are difficult to obtain and maintain over time to guide implementation efforts. More than questioning the participatory nature of the process itself, the task is made difficult by the large variety of situations existing in a globalized world where the word 'diversity' remains a reality and where rapidly changing realities easily make any trial outdated.

SDGs' Thematic Priorities and Action

A large range of thematic documents on specific issues, produced by diverse stakeholders (most of which are part of the UN System or related to it), has attracted the attention on particular issues and has indicated how they could be considered as priorities for the SDGs.

They can be divided into two main groups, as some of them are more related to social concerns/patterns/rights (on education; health; inequality, and inclusive growth; justice; child rights; youth; human rights), while others are more spatial/geographic (on migration; rural transformation; population dynamics; consumption and production; green and decent jobs; water).[4]

These focus areas testify of an evolution. In fact, seven of the eight MDGs are inspired by social concerns, with the unique exception of Goal 7 on environmental sustainability. A focus on geographic and more spatial thematic concerns, with environmental protection at the core of it, has progressively emerged and has become prominent in the programmatic documents.

To give a few examples, the International Organization for Migration (IOM) proposed a migration target as part of the post-2015 partnership, acknowledging the strategic role played by migrations and mobility in order to fully achieve their potential of development (IOM 2013). The SDG 10.3 includes these issues in the post-2015 agenda. On a related issue, *Population Dynamics in the Post-2015 Development Agenda: Report of the Global Thematic Consultation on Population Dynamics*, another report on population dynamics (UNFPA, UNDESA, UN-HABITAT, IOM 2013) recommends taking them into account while planning development at the global level; it especially emphasizes high fertility and population growth.

Demographic dynamics certainly make the world always more urban, as the SDSN rightly pointed out in its first report, but in developing countries and where poverty is concentrated, rural areas are still an important reality to target, not only to end extreme poverty at the global level but also to improve the general quality of life of people around the world. Rural areas generally concentrate in fact dramatic realities of isolation, poverty, and lack of opportunities for the populations living there. To this extent, the International Fund for Agricultural Development (IFAD) has produced a policy brief on the rural transformation agenda post-2015. This overview document (IFAD 2014) identifies four key issues around which the SDGs can catalyse rural transformation:

[4] The specific sources for every thematic area are quoted later in the references.

- leveraging the urban-rural nexus for development;
- promoting an empowerment agenda for rural livelihoods;
- investing in smallholder family agriculture for global food security and nutrition; and
- Promoting the resilience of poor rural households.

To achieve these targets, IFAD underlines that the access to knowledge, technology, markets, finance, and services for productive and diverse livelihoods, on a gender-equitable basis, are strategic. SDG 2 tackles, even if indirectly, these concerns.

Even if the MDGs already include in Goal 7 a focus on access to safe drinking water, this is not enough for the post-2015 agenda, which has to consider water not only as a primary need for people, but in a more exhaustive way, taking into account its management and planning its use and consequences. For this reason, the global goal for water proposed by UN-Water (2014) ('securing sustainable water for all') is not only limited to drinking water and sanitation and sustainable use of water resources, but it also includes robust and effective water governance, with more effective institutions, administrative systems, and strategies to reduce risks of water-related disasters to protect vulnerable groups and minimize economic losses. This is what has been done in SDG 6.

Governance and social vulnerability call for two other transversal themes that are crucial for the post-2015 agenda: inequality and justice. It is in fact generally recognized that the MDGs do not properly tackle inequality. The UN Capital Development Fund (UNCDF) suggests then (UNCDF 2013) that inequality could be reflected in the post-2015 development framework as a stand-alone goal or mainstreaming pertinent indicators across different goals, but it would require tackling lack of data and other technical and political barriers. This means that related capacities have to be built, especially in developing countries and that mechanisms of political ownership have to be set in place (see Dayton-Johnson (Chap. 11), this volume). This is the challenge of SDG 10.

As it is crucial to be able to measure inequality, it is equally important to be able to assess and measure justice for the post-2015 development agenda. Among the justice targets proposed by the Open Society Foundations (2014), information and access to government data are key priorities, together with the access to justice institutions and affordable, fair, and timely legal aid services for all. Participation of citizens in monitoring essential services (healthcare, water, and education) and participation of communities in

decision-making concerning their rights on land are also included. SDG 16 takes these views into account.

Implementing the SDGs

The best way to start discussing the implementation of the SDGs, its modalities, and its challenges is to point out that the FFD Conference that took place in Addis Ababa, Ethiopia, in July 2015 and the related Addis Ababa Action Agenda (AAAA) are a first step of this implementation process. The AAAA underlines the limitations of domestic resource mobilization for emerging economies, despite its critical importance. Innovative finance for development solutions is critical. It includes (but it is not limited to) public-private partnerships, green bonds, and private equity funds. Important financing flows are also generated by private foundation, by the diaspora, and by other stakeholders.

The AAAA also stretches some areas that require specific attention and financing efforts (McArthur 2015):

- essential public services that should be provided by a new 'social compact'
- high infrastructure efforts aligned through a new global infrastructure forum; and
- improved municipal finance building financing capacities of local and municipal authorities with international support.

At the time of the Addis meeting, the SDGs had not been finalized yet. Their launch a few months after the Addis FFD unveiled changes and new directions, compared to the MDGs, some of which were predictable (clean energy, urban sustainability, green industrialization and infrastructure, climate action, strong institutions, peace and justice, partnerships for implementation).

The goals and targets are formulated in such a way that they have to be implemented at various levels by ad hoc partners and stakeholders. This makes evaluation and report on progress more challenging. At the global level, governments are the main responsible actors, with the UN agencies and system only helping and supporting when government asks them. At the national level, the situation and feedback seem mixed with some countries willing to take the lead for implementation (like Sweden), others very active and engaged (like Switzerland, Liberia, and India) (Risse 2016), and concerns about the

cost of the SDGs, especially for developing countries, making them too expensive to achieve. In a country like the Democratic Republic of the Congo, the cost of achieving the SDGs has been estimated every year almost as much as the gross domestic product (GDP) (Hoy 2016).

As the annual reports on MDGs' progress used to follow the implementation status and challenges at the global, continental, and national levels, the Sustainable Development Goals Report 2016 (UNDESA 2016a) continues this tradition but, as a first report published just at the beginning of the 15-year period, it only describes the status quo of the situation, presenting some indicators available to highlight implementation gaps and challenges, related to timely and reliable disaggregated data. This report is nevertheless compounded by the 2016 edition of the Global Sustainable Development Report (UNDESA 2016b), emphasizing the need to document and interpret information on specific relevant issues and networks of issues interrelated between them. The report focusses on the 'science-policy interface', underlining the critical value added brought by scientific research for policymaking and consequently for implementing the SDGs.

The post-2015 development agenda and the SDGs are in the end a hugely ambitious plan and process, full of uncertainties, challenges, some of which are probably still unknown and are emerging during the implementation period, but the actual global agenda and partnership nevertheless remain the only viable option for creating a sustainable and liveable future. It is our shared responsibility and joint accountability individually and as part of social groups and stakeholder to implement it.

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25

The Role of Agriculture for Food Security and Poverty Reduction in Sub-Saharan Africa

Renu Modi

Introduction

Hunger levels, understood as distress associated with lack of food, are among the highest in Sub-Saharan Africa (SSA).[1] Based on four indicators—undernourishment, child stunting, child wasting, and child mortality—the region is classified as 'serious' by the Global Hunger Index report (Gustafson [IFPRI] 2017). Majority of Africa's low-income countries are situated in SSA and account for two-thirds of the continent's population (Rakotoarisoa et al. [FAO] 2012: 2). Several of these are also fragile states characterized by weak state capacity and low state legitimacy rendering their citizens vulnerable to a range of shocks—both internal and external, where development and poverty reduction is an insurmountable challenge (for details, see World Bank 2017). It is projected that the number of poor people on the continent will increase from 240 million in 2015 to 320 million by 2025 (Africa Development Bank 2016: iii).

[1] Forty-eight countries out of Africa's 54 countries are a part of SSA, Algeria, Djibouti, Egypt, Libya, Morocco, and Tunisia are excluded from this category (World Bank 2018a).

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Low productivity and untapped agricultural[2] potential combined with a population growth of 3% per year—the highest growth rate, globally, have contributed to persistent poverty[3] and deteriorating food security situation (Li and Wei [World Bank] 2016: 4). Africa's growing population is one of the main drivers for the rise in food imports which varies according to countries' income levels. While a few relatively rich countries on the continent had the highest net food imports per capita, as they had adequate resources from non-agricultural sources to pay the food bills, the majority of the low-income countries (mostly in SSA) imported much less food as they did not have sufficient export earning to pay for the food (Rakotoarisoa et al. [FAO] 2012: 19, 23–25).

From being self-sufficient in food in the 1960s, Africa has become a net importer of food that is expected to grow from US$ 35 billion in 2015 to approximately US$ 110 billion in 2025 (Africa Development Bank 2016: iii). Low productivity and increasing food demand due to rising population requires that food production be increased by 60% over the next 15 years (Li and Wei [World Bank] 2016: 4). The large-scale private sector-led international investor rush in land (with support from respective governments), popularly referred to as 'land grabbing', has led to the outsourcing of Africa's fertile land and freshwater resources for the production of flowers and exotic vegetables or biofuels for external markets. The export of water, energy, and food, quintessential for poverty reduction and food, has adverse environmental, social, economic, and political repercussions in the affected countries on the continent (FAO 2014: 1–6). It is indeed ironical that a continent estimated to have 60% of the globally available unexploited arable land remains food deficient! (Africa Development Bank 2016: 5).

Food security is understood as the access by all people at all times to food required for a healthy life (Von Braun et al. [IFPRI] 1992: 1). In SSA, the lack of access to adequate food is a rural phenomenon, and first and foremost about poverty and inequities in the region, where a majority of the rural poor, mainly smallholder farmers, live (NEPAD 2013: 8). About 70% of the population of SSA works as smallholder[4] farmers, in marginal and sub-marginal

[2] It includes forestry, fisheries, livestock rearing, and dairy farming, unless otherwise stated agriculture in this paper is regarded as production of food through farming.

[3] Economic poverty refers to how much poor people spend on goods and services to maintain a minimally accepted standard of living in a given social context. Poverty is also social, political and cultural (UNESCO n.d.).

[4] Smallholder farmers are those marginal and sub-marginal farm households that own or/and cultivate less than 2.0 hectare of land (FAO 2002).

farm households that own or/and cultivate less than 2.0 hectares of fragmented parcels of land. They produce for use or subsistence rather than for sale (Alliance for a Green Revolution in Africa (AGRA) 2017: vi). Family farming is the most common operational model which maximizes the use of labour in the family unit. On an average, the agricultural[5] sector accounts for 60% of all jobs on the continent and contributes about a third to the gross domestic product (GDP) (Abdulai 2017: 117). Therefore, the importance of the agriculture sector on the continent is incontrovertible.

It must be stated at the outset that countries in SSA are highly diverse in terms of their agroecological zones, level of economic diversification, incomes, and country-specific structural issues. There are remarkable differences between regions, countries, and within the countries. Besides, there is a lack of access to quality and updated data for research on poverty. Bearing these differentiations and complexities in mind, this chapter has three key objectives. First, it purports to highlight the urgency of food security in SSA in the context of high population growth rate and alarming poverty levels; second, it focuses on the predominant role played by the agriculture sector for ensuring food security, employment (including youth employment), and poverty reduction, mainly in the relatively poor and least-diversified economies; third, it reaffirms the ongoing findings that pro-poor growth through agriculture and value addition to agro outputs is the most appropriate development pathway for SSA. Growth of the agricultural sector is vital because it provides an avenue for the productive absorption of the working-age population, income generation, poverty reduction, and food security in the region. This chapter restates the continued relevance of the agriculture sector as outlined in the Africa Union's (AU), Maputo[6] and Malabo Declarations of 2003 and 2014, respectively and the more recent 'Feed Africa' strategy enunciated by the Africa Development Bank (AfDB) (2016), as a policy framework to 'unlock Africa's agricultural potential as well as develop value chains for agro-products. Through select case studies and statistical data, this study explores the ongoing development strategies and fiscal priorities in SSA for job creation, income generation, and elimination of hunger and poverty in a continent with rising population. Between 2015 and 2050, the population of 28 African countries is projected to more than double (UN 2015a: 6).

[5] Agricultural land is share of land area that is arable, under permanent crops, and under permanent pastures.

[6] It was endorsed by the African heads of states and governments of the AU (NEPAD 2003) to transform agriculture and provide food security.

Demography and Poverty

Currently, the global population is estimated at 7.3 billion people and expected to grow to 8.5 billion by 2030 (UN 2015a: 1). Africa is home to nearly 16% of the world's population. Though there is heterogeneity in the estimated population growth rate in countries across Africa, overall, the continent is projected to see the largest relative increase in the size of its population over the next decade and a half (UN 2015a: 2–3). More than half of global population growth between now and 2050 is expected to occur in Africa as the continent has the highest rate of population growth, 'nearly the double of the world's population growth rate' and projected to grow at a pace of 2.55% annually over the next decade and a half (Rakotoarisoa et al. [FAO] 2012: 19; UN 2015a: 2–3). Countries with a relatively high ratio of working to dependent populations have the possibility of benefitting from a 'demographic dividend', 'provided that appropriate labour market and other policies allow for a productive absorption of the growing working-age population and for increased investments in the human capital of children and youth' (UN 2015b: 7). In 2015, 226 million youth aged 15–24 lived in Africa, accounting for 19% of the global youth population. By 2030, it is projected that the number of youths in Africa would increase by 42% (UN 2015c: 1).

Population growth remains especially high in the group of 48 countries designated by the UN as the least-developed countries (LDCs), of which 27 are in Africa (UN 2015b: 4). By 2100, the population in ten countries—Angola, Burundi, Democratic Republic of Congo, Malawi, Mali, Niger, Somalia, Uganda, United Republic of Tanzania, and Zambia—are estimated to increase by at least fivefold (UN 2015b: 9). By 2030, the total population among some of the poorest and low-income countries in SSA namely, Niger, Rwanda, and Burundi is likely to grow by 81% and 50% each, respectively! (UN 2015a: 6).

The concentration of population growth in the poorest countries will make it harder for these governments to provide basic services in the social sectors and eradicate hunger and malnutrition (UN 2015b: 4). Even though some of the LDCs—Mozambique, Ethiopia, and Rwanda—have seen high growth rates, the number of poor people continues to be high because growth has not led to a rise in incomes and, therefore, inequalities persist (Nag [World Atlas] 2017).

Therefore, the development of the agricultural sector is crucial for income generation and food security, more so in countries which are the least diversified economically (see Table 25.1 also, D'Alessandro and Besada (Chap. 24), this volume). Where farming is the predominant occupation and provides employment

Table 25.1 Top 20 countries with the highest GDP source from agriculture

No.	Country	Agriculture, value added (% of GDP) 2016[a]	Agricultural land (% of land Area) 2017[b]	Poverty headcount at national poverty lines[c]		Government agriculture expenditure[d]		People engaged in agriculture (%)(2017)[e]	Youth unemployment (%)[f]	Total unemployment (2017)%[g]	Total population (2016) (Million)[h]	HDI rank (2014)[i]
				%	Year	%	Year					
1	Sierra Leone	59.4	54.7	52.9	2011	6	2012	60.6	9	4.5	7.40	176
2	Chad	50.1	39.7	46.7	2011	5	2007	87.2	10.1	5.9	14.45	186
3	Guinea-Bissau	49.1	58.0	69.3	2010	1	2005	83.5	11.6	6.1	1.82	179
4	Central African Republic	42.9	8.2	62	2008	4	2013	85.6	10.6	6	4.59	188
5	Mali	42.1	33.8	43.6	2009	12	2015	57.6	18	7.9	17.99	175
6	Niger	41.5	36.1	44.5	2014	8	2015	75.6	0.5	0.3	20.67	187
7	Togo	41.3	70.2	55.1	2015	6	2015	37.8	2.8	1.8	7.61	167
8	Burundi	39.8	79.1	64.6	2014	3	2014	91.5	2.9	1.6	10.52	184
9	Sudan	39.0	28.7	46.5	2009	1	2014	53.3	28.4	12.8	39.58	165
10	Ethiopia	37.2	36.3	29.6	2010	7	2015	68.2	7.4	5.2	102.40	174
11	Kenya	35.6	48.5	45.9	2005	3	2015	38	26.2	11.5	48.46	147
12	Liberia	34.2	28.0	63.8	2007	9	2013	43	3.3	2.4	4.61	177
13	Rwanda	31.5	73.4	39.1	2013	7	2015	66.5	2.1	1.3	11.92	162
14	Tanzania	31.5	44.8	28.2	2011	2	2015	66.7	3.9	2.2	55.57	152
15	Burkina Faso	30.8	44.2	40.1	2014	9	2015	28.3	8.6	6.3	18.65	185
16	Malawi	28.1	61.4	50.7	2010	19	2015	84.7	8	6	18.09	170
17	Uganda	25.8	71.9	19.5	2012	4	2015	69	2.9	2.1	41.49	165

(*continued*)

Table 25.1 (continued)

No.	Country	Agriculture, value added (% of GDP) 2016[a]	Agricultural land (% of land Area) 2017[b]	Poverty headcount at national poverty lines[c]		Government agriculture expenditure[d]		People engaged in agriculture (%)(2017)[e]	Youth unemployment (%)[f]	Total unemployment (2017)%[g]	Total population (2016) (Million)[h]	HDI rank (2014)[i]
				%	Year	%	Year					
18	Benin	25.6	33.3	36.2	2011	12	2015	43.2	5.2	2.5	10.87	168
19	Mozambique	24.8	63.5	46.1	2014	12	2015	73.3	42.7	25	28.83	182
20	Madagascar	24.7	71.2	70.7	2012	6	2015	74.4	3	1.8	24.89	157

Author's compilation: World Bank (2016; 2018a, b, c, d), ReSAKSS (2015), ILO (2017a, b), UNDP (2016)

to the bulk of smallholder subsistence farmers in rural areas, the agricultural sector is indeed vital.

The Central Role of Agriculture

Table 25.1 lists (in descending order) the top 20 countries with the highest GDP source from the agricultural segment. It also provides information on the poverty head count, government spending as percentage of total spending for the agricultural sector, area under agriculture as percentage of total land, percentage of people employed in the farming sector, and levels of unemployment. The countries listed in Table 25.1 are the LDCs and among the poorest countries on the continent (Nag [World Atlas] 2017). Several of them are fragile states.

The most striking example is that of Sierra Leone where agriculture contributes about 60% to the states' GDP, the highest in SSA with 54.7% of its land under cultivation! Like Sierra Leone, the Central African Republic, Chad and Niger (all categorized as fragile states), amongst others, have been embroiled in complex civil wars for decades and have very small GDPs, and agriculture forms the mainstay of these countries. Their economies are amongst the least diversified, with only two major operational sectors—agriculture and the extractive industry. Services, tourism, and other sectors play a minor role. In Sierra Leone, the capital-intensive–extractive industry—iron ore and diamond mining have limited backward (production) and forward (consumption) linkages. They neither provide employment to a significant number of local people nor boost the economy through adding value to the unprocessed natural resources, which are exported in their raw form. The mines faced closure due to a slump in commodity prices in 2016. As a consequence, the economy shrank and led to loss of jobs. Moreover, since the 'diamond rush' of the 1950s, rural labour had been lured into diamond mining, thereby constraining the agriculture sector. The country has seen illicit trade in this precious commodity, which has resulted in economic distortions, criminalization, and informal activities, thereby eroding the countries' tax base (Davies 2002: 8). Furthermore, the natural resources sector operates like an 'enclave economy', with little or no connection with the rest of the national economy (Roe et al. 2016: 4–5). While the extractive industries can potentially spur growth, they have little impact on employment, revenue generation, or in engendering social equity in the country (for details, see Pedro 2006: 2).

In addition, the protracted violent conflict situation and unstable environment in the fragile state of Sierra Leone have not been conducive to the development of a secondary sector (industry and manufacturing) (N'Kodia and

Gbetnkom [Africa Economic Outlook] 2017: 1). Poverty levels, largely as a consequence of natural 'resource curse', poor governance, and conflict continue to be high in other fragile states as well. Conflicts over limited resources, inequities, and the instability has spawned a category of forced migrants who have 'voted with their feet'. Millions of migrants have crossed into Europe compounding the migration crisis!

Against this backdrop, smallholder farming has been the only bankable outlet to absorb the country's labour productively and the main driver of growth (Zayid et al. [Africa Economic Outlook] 2016: 12). Over half the population in the country is below the poverty line and the Human Development Index (HDI)[7] is abysmally low (see Table 25.1), signifying the absence of pro-poor regulatory frameworks and good governance, amongst others enablers. The case of Sierra Leone exemplifies the notorious crisis of a 'resource curse'—a phenomenon that has unfortunately played out in several other countries in SSA as well.

Agriculture plays a key role in all the poor countries of SSA. In Burundi, 80% of the land area is cultivated by smallholder subsistence farmers, and the farming sector employs 90% of the labour force, the highest in Africa! The low levels of unemployment (including youth unemployment), of about 12% or below, are largely due to the prevalence of labour-intensive family farming that has been able to provide jobs, mainly in rural areas.

High GDP contributions from farming along with high poverty levels are on account of moderate-to-low productivity[8] of the agricultural sector. Tackling the overwhelming challenges faced by agriculture is critical for generating income, eliminating hunger, and upscaling the human development indices.

Challenges Faced by the Agricultural Sector

Cultivation in the region is characterized by minimal inputs and low level of commercialization. Crop productivity is evidently low, and the average crop yields lag far behind the average yields in other countries. The slack performance of the agricultural segment can be attributed to a wide-ranging array of

[7] HDI emphasizes that people and their capabilities and not economic growth alone, should be the ultimate criteria for assessing development of a country. HDI is a composite of three key dimensions of human development: health, education, and life expectancy. However, it does not capture inequalities or poverty, and gross national income per capita reflects an individual's economic development' (UNDP n.d.).

[8] It is measured by output per unit area of land and per unit of labour in the farming sector.

factors, both internal and external. Agriculture has been adversely impacted owing to shortage of water (see Swatuk (Chap. 31), this volume), lack of scientific irrigation facilities, scarcity of essential inputs—seeds, modern agro-technology, lack of post-harvest storage and processing amenities, poor access to financial services, linkages to markets, absence of coherent government policies, and an unstable political environment (Businge 2017). In addition, limited adaptive capacity to climate risks and natural disasters—unpredictable rains and the occurrences of droughts and floods, low demand for and volatility of export product commodities, declining official development assistance (ODA), outsourcing of the water, food, and energy resources—are some of the external factors that have adversely impacted this critical sector. Therefore, the agricultural sector that employs a large majority of peoples, mainly rural smallholder farmers, requires pro-poor and agricultural growth-oriented interventions.

Continental Responses to Accelerate Agriculture

In the past decade and a half, there have been continued efforts to bolster the farming sector by 'increasing investments and supply of inputs, encouraging entrepreneurs in the agro-value chains to foster development and building market linkages for Africa's collective food security' (NEPAD 2013: 3). Cognizant of the fact that Africa is naturally endowed with arable land, water, and adequate manpower—critical prerequisites for farming—in 2003, the AU endorsed the 'Maputo Declaration on Agriculture and Food Security in Africa'. It mandated that all the member states allocate at least 10% of the national budget to agriculture in order to achieve a 6% growth in the agricultural GDP (NEPAD 2003). It also formulated the Comprehensive African Agriculture Development Programme (CAADP), a continental framework to facilitate the implementation of the Maputo commitments to benefit smallholder farmers, enhance food production, end hunger and thereby achieve an inclusive economic growth (NEPAD 2003; see Cheru and Modi 2013: 17–22).

About a decade later, the Malabo Declaration (2014) reconfirmed that 'agriculture should remain high on the development agenda of the continent, and is a critical policy initiative for African economic growth, improved livelihoods and poverty reduction' (AU 2014). In 2014, only four countries: Burkina Faso, Malawi, Mozambique, and Zimbabwe had met or surpassed the 10% target, while Rwanda, Niger, and Zambia had allocated about 9% to the agricultural sector (Goyal and Nash [World Bank] 2017: 14). Though Malawi and Mozambique have constantly surpassed the

CAADP threshold of 10%, the agricultural sector has underperformed because of internal and external constraints. In the landlocked state of Malawi, the average agricultural GDP growth has been only 4% since 1968, partly due to a lack of coherent policies, volatility, and inherent structural weaknesses in the sector. While in Nigeria, referred to as the 'giant of Africa' owing to it largest population (184 million peoples) and the richest country on the continent, the government spent less than 2% of the national budget in 2016–2017 on agriculture! The bulk of Nigeria's labour force is engaged in subsistence farming—largely rain fed and characterized by low productivity and minimal commercialization (World Bank 2014). Ironically, the richest state on the continent has an exceedingly high poverty headcount, at 46%![9] Lack of government investment in this vital sector is one of the main reasons for low output in agriculture and food insecurity in the country (World Bank 2014, 2018d). As a consequence, in 2016, for instance, the country spent US$ 1.09 billion on buying wheat from abroad and US$ 302 million on importing rice (OEC 2018).

Growth in the service and industry sector (mainly hydrocarbons) that contribute 80% of the GDP to the economy has not resulted in poverty reduction in this West African giant. The Federal government is making efforts to diversify the country's economy, away from the oil and gas (a sector currently in recession) as the sole foreign exchange earner and moving towards agriculture and the solid minerals sector (Udo 2017; ReSAKSS 2017).

The Importance of Agriculture for Poverty Reduction

That agriculture plays a predominant role in SSA and provides livelihood to a bulk of the peoples, in both resource and non-resource-rich countries, has been corroborated through evidence-based data. The direct correlation between supporting agriculture (mainly through policy and investments) and increased food productivity and poverty reduction has been seen in other parts of the world as well, such as in the People's Republic of China and across South Asia (Ravallion and Chen [World Bank] 2004; Ravallion [World Bank] 2008; Christiaensen and Lionel [World Bank] 2007; Arndt et al. 2016; Goyal and Nash 2017).

[9] South Africa, the second largest economy in terms of GDP, (after Nigeria) has the highest poverty levels at 55.5 percent and is one of the most iniquitous societies in the world! (Statistics South Africa 2017).

Agriculture and Poverty Reduction in China

Rapid growth in agriculture in China led to a dramatic reduction in rural poverty—from 53% in 1981 to 8% in 2001(Ravallion and Chen [World Bank] 2004: 1). In 1981, two out of three mainland Chinese lived on about US$ 1 a day (at 1993 prices) and the ratio between the poor in China as compared to Africa was 4:1; but by 2004, less than one in ten lived in poverty (by the same standard) in China. Furthermore, by 2004, 500 million fewer Chinese lived below US$ 1 day than in 1981, while the number of impoverished peoples in Africa rose by 130 million (Ravallion [World Bank] 2008: 3). The pro-agriculture change in policy grew out of a crisis of food insecurity on account of low productivity and lack of food availability—a situation that confronts Africa today (Ravallion [World Bank] 2008: 13).

The agricultural sector in China grew at an impressive growth rate of 7.5% in the 1980s but declined to 4% in the mid-1990s, whereas the industrial sector grew at about 12% (Ravallion [World Bank] 2008: 10). In the reform period, 'agriculture played a more significant role than the secondary and tertiary sector sources of GDP' (Ravallion and Chen [World Bank] 2004: 1). Introduction of radical reforms, such as privatization of land-use rights under the 'household responsibility system' and the dismantlement of collectives, incentivized individual farmers. This gave a major boost to rural economic growth, and a dramatic reduction in poverty was recorded between 1981 and 1985. A wide range of radical reforms that were undertaken transformed the agricultural sector. Increase in procurement prices of agricultural commodities, macroeconomic stabilization that reigned in inflationary shocks, trade reforms, 'letting the markets work', internal market integration (though this happened at a slower pace than planned and linked the places of production and markets), labour-intensive manufacturing sector (in the 1990s, to absorb surplus labour from the rural hinterlands), investments in agricultural research and development were noteworthy enablers for improved food security and reduction in poverty rates (Ravallion and Chen [World Bank] 2004: 21–22; Ravallion [World Bank] 2008: 17–22). However, the one single factor that underscored the above stated list of supportive measures was the existence of a very strong state institution that prioritized huge public investments, inter alia, in agriculture and infrastructure (Ravallion [World Bank] 2008: 17).

Though China offers valuable lessons to countries on the continent and globally, in their pathway to broad-based development, there are pitfalls too, that one needs to be cautious about. Poverty reduction in China has come with a steep rise in inequality between the rural–urban sectors and geographies. There has been a marked divergence in terms of higher level of earnings and opportu-

nities in urban areas as compared to the rural parts. Additionally, there has been a difference in access to essential infrastructure in different regions—with a greater availability of public resources in coastal areas than in inland 'poverty traps'. This has led to a decrease in the overall impact of growth rate, despite poverty reduction (Ravallion [World Bank] 2008: 10, 19). Despite these limitations, the Chinese model of poverty reduction through agriculture and the steadfast role of the state in this process are noteworthy takeaways for countries in SSA, where agriculture forms the backbone of these economies.

Increasing Agricultural Productivity in South Asia

South Asia too transformed its agricultural sector through targeted interventions to the farming segment. In the mid-1980s, the agriculture sector of South Asia faced low cereal yields and high levels of poverty. But a combination of high rates of public investments in crop research in major staple crops—wheat, rice, and maize—infrastructure, pro-agriculture policy support, appropriate institutional mechanisms, and the support of international institutions, such as the Rice at the International Rice Research Institute (IRRI) in the Philippines and the Consultative Group on International Agricultural Research (CGIAR), resulted in gains in crop productivity and enhanced the capabilities of smallholder farmers across South Asia (for details, see Pingali 2012). Fifteen years later, by the mid-1990s, countries in South Asia witnessed more than 50% increase in cereal yield and a simultaneous decrease in the poverty levels by around 30%[10] (World Bank 2008: 26).

Agriculture: A Bankable Sector for Food Security in Sub-Saharan African

Against the above backdrop, the rationale for development and prioritizing of the agricultural sector in SSA are as follows:

First, the continent is naturally endowed with large tracts of arable land that is uncultivated or not exploited to its full potential. Africa has several

[10] There have been other success stories of growth in agriculture such as in Vietnam, but with a different set of policies. However, the growth and the path to poverty reduction was different in East Asian economies that banked upon comparative advantage in labour-intensive manufacturing sector through supportive policies and institutions, macroeconomic stability, favourable industrial, and labour market policies (Hasan and Quibria 2004: 259).

agroecological zones. While some regions are deficient in rainfall and water scarce, such as in southern and northern Africa, other areas have adequate rainfall and large water bodies. Countries in water-deficient areas are working on a more climate-resilient agriculture and sustainable water harvesting, conservation, and storage methods to support farming (Bird 2016). The AU has pronounced agriculture as a priority sector. If intensively cultivated, the continent could produce 100 million tons of grain equivalents each year! (AGRA 2017: 5).

Second, the agricultural sector provides food security and employment. Farming leads to food production that people can consume, and the development of agriculture leads to the progress in areas where the majority of the poor live. It contributes considerably to the incomes of farming households (mainly of women and youth), which comprise more than half the region's population (see UN 2018). Boosting agricultural productivity and the concomitant increased supply of agro outputs lower food costs for those engaged in the non-agricultural sector as well (Goyal and Nash 2017: 1; International Labour Conference 2008: 14).

Third, as agriculture grows, it stimulates a series of backward (production) and forward (consumption) linkages with the rest of the economy. The backward linkages stimulate demand for, inter alia, agro inputs—seeds, agro chemicals, machine tools, repairs, and transport services. The cultivation of agro-commodities encourages the development of value chains in processing industries based on agricultural raw materials (see Goyal and Nash [World Bank] 2017: 1; International Labour Conference 2008: 14). Growing farm incomes spur consumption linkages for non-farm goods and services, many of which entail labour-intensive methods. Thus, agriculture-led development generates employment, accelerates growth, and enhances socio-economic equity.

Fourth, the overall development policies that provide avenues for labour absorption in the non-farm sector play an independent role in poverty reduction (Ravallion [World Bank] 2008: 8). In SSA, the unskilled labour intensity of the agriculture sector is exceedingly high and that is why growth in this sector can have a stronger impact on poverty reduction than from industry and service sectors. It is estimated that growth led by agriculture is 2.9 times more effective in poverty reduction than that led by manufacturing and 1.8 times higher than growth led by construction (Loayza and Raddatz 2006 cited in de Janvry and Sadoulet [World Bank] 2009: 7).

Fifth, given the volatility in the market prices of extractive resources, excessive dependence on foreign exchange earnings based on export of commodities is a risky economic proposition. Therefore, it would be prudent for African

economies to greatly diversify their export basket to include agricultural commodities to their sources of GDP contribution, export earnings, and contribution to budgetary stability (see AfDB 2016).

Structural Constraints and the Way Forward

Sub-Saharan Africa is faced with three structural limitations in their efforts towards poverty reduction through agriculture, which China was not confronted with at the beginning of the reform period. Ravallion summarizes them as: 'higher inequality, higher dependency rates and lower population density' (2008: 4). First, given the high levels of overall poverty and income inequality, countries in SSA will need higher growth in income levels than China did in the reform period, in order to realize the same pace of poverty reduction that China attained. Second, Africa's high dependency rates[11] are on account of high fertility rates accompanied with high working-age adult mortality because of diseases, such as HIV/AIDS, amongst others, which are a constraint on growth and poverty reduction. Africa's high population growth in general is well above China's was at the outset of the reform period, when China had already entered the phase of demographic transition.[12] The high dependency rates necessitate that economic growth and gains need to outpace population growth. Third, a lower population density makes it less economical for African countries to provide basic infrastructure services such as roads and other infrastructure (Ravallion [World Bank] 2008: 4–6), mainly in less accessible terrains where fewer people reside.

Countries in SSA have an insurmountable task of eliminating the earlier stated structural limitations: the scourge of diseases, extreme poverty, and the building of infrastructure. As a part of its 'Feed Africa' strategy, the AfDB plans to eliminate extreme poverty and end hunger and malnutrition in Africa by 2025. It has carried forward the goals of CAADP to make Africa food secure (AfDB 2016).

In their pathway to development, the central challenge that several countries in SSA are confronted are weak institutions and the associated problems of corruption, inadequate regulatory mechanisms, the lack of rule of law, good governance and human rights, hurdles in the ease of doing business, and ongoing conflicts—all mutually reinforcing and inimical to economic growth and poverty reduction. While poverty reduction requires a multipronged strategy, the

[11] A measure to determine the number of people who do not work.

[12] From a phase of high birth and death rates to lower birth and death rates.

agricultural sector alone cannot eliminate hunger and poverty. However, its role continues to be decisive, more so, in poor economies of SSA, where agriculture is the main sector that provides income and food security.

Towards these endeavours, innovative methodologies such as the water-energy and food nexus approach need to be accentuated as the requirement for freshwater, energy, and food will rise substantially over the coming decades. The cross-sector nexus outlook to resource management can result in a sustainable management strategy that recognizes the complex interdependency between the three equally valuable resources—water, energy, and food (FAO 2014: 6–8).

Conclusion

This chapter has reiterated the proven capabilities of growth in the agricultural sector and its positive effects on employment generation, poverty reduction, and reducing hunger. Food security is as much a matter of poverty as it is a matter of supply (Drèze and Sen 1989). In the low-income countries in SSA that are home to some of the poorest peoples, the farming sector is vital because it has demonstrated a higher intensity of participation potential for creating direct and indirect employment opportunities and can and thus engender pro-poor growth (Diao et al. 2010: 1382).

The advancement of agriculture is also crucial for closing the demand-supply gap in the domestic productivity of food crops. Low agricultural spending as a share of total public spending is one of the foremost reasons (though not the only one) for low productivity. Accordingly, increased public investment in agriculture (as posited by the Maputo Declaration) that is efficient and effective is a vital instrument for advancing agricultural growth and food security (Fan and Saurkar [ReSSAKS] 2008: 1).

Where agriculture is prioritized and investments are made towards upgrading the capabilities of smallholder farmers, there is a greater likelihood of 'lower food prices, minimal imports and a more broad based development' (Arndt et al. 2016). To achieve development, it is of essence to bear in mind two pertinent issues. These are: first, the incontrovertible role of a strong state, public institutions, and policy frameworks that will accord high priority to agriculture in their development strategies, more so in post-conflict and fragile states; second, that growth with equity among the rural-urban populace and between regions is quintessential for the overall reduction of poverty in any country.

The advancement of the agricultural sector has serious implications for poverty reduction and food security in SSA and globally because 'what Africa does with agriculture is not only important for Africa, but it will also shape the future of food in the world' (Dr Akinwumi Adesina 2017).

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Part IV

Emerging Issues in Contemporary IPE

26

What Is Globalisation?

Leila Simona Talani

Introduction

As characterised by Anthony Giddens in a lecture entitled 'Globalisation: The state of the debate' (UCLA, 7 November 2005), the globalisation debate has gone through three phases. The first phase saw opposition between the so-called sceptics, who questioned the very existence of the phenomenon, and 'globalists' who firmly asserted that its existence was undeniable. In the second phase, the idea that globalisation was a new phenomenon became consensual and the debate moved into the streets, where anti-globalists violently opposed its advent, commonly identifying it with the spread of political imperialism and economic neo-liberalism. In the third phase of this debate, even the anti-globalists have come to terms with the inevitability of globalisation, and discussions have shifted to tackle the question of how to govern globalisation so that it can be beneficial for everyone. Summing up, the debate moved from the questions, 'Does globalisation exist?' and 'what are the consequences of globalisation?' to 'How to govern globalisation?'

Giddens's characterisation is interesting but reveals that the author is himself a globalist and adopts a neo-institutionalist perspective. In fact, there is still not a widely agreed definition of what globalisation is, nor there is consensus on whether it is a completely original phenomenon, neither among the different disciplines in social sciences nor, more specifically, among the

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different approaches in international political economy (IPE). In the following sections, we therefore try and answer Giddens's questions with reference mainly to theories of IPE.

Does Globalisation Exist?

Although in the general public discourse, the question of whether globalisation exists may seem straightforward, in the academic debate the answer depends on the theoretical standpoint adopted. Limiting the analysis to IPE perspectives, scholars' positions on the subject can be classified into three broad groups (Dicken 1998: 5; 2007: 5). The first group includes those who continue to deny the existence of the phenomenon of globalisation and are often referred to as 'sceptics' (e.g. Hirst and Thompson 1999a; Hirst et al. 2009). The second group is represented by the 'globalists' and is comprised by those who support the globalisation thesis but provide a quantitative definition (e.g. Held and McGrew 2000; Holm and Sørensen 1995; Garret 1998). Finally, the 'transnationalists' consider globalisation a structural phenomenon which requires a qualitative definition (e.g. Mittelman 2000; Dicken 1998, 2007; Hay and Marsh 2000).

The Denial of Globalisation

Those who tend to deny globalisation rely on considerations underlying the historical recurrence of periods of increased international and cross-border interactions. Thus, the 'sceptics' refuse to characterise globalisation as a new, original phenomenon. In some cases, they might even deny any 'global', 'globalised', or 'globalising' nature to the current phase of capitalist development. This attitude is typical of realist approaches to IPE which see globalisation as a convenient myth in the hands of politicians in the most powerful states who spread it among public opinion with the aim of consolidating their hegemony. In essence, the notion of globalisation is much exaggerated in both the public and academic debate by those who demonise it as the mother of all evils as well as those who proclaim it to be the resolution to all problems. Realists would instead maintain that globalisation is hardly a new phenomenon and that even where the IPE shows new trends these can easily be governed by traditional intergovernmental solutions (Gilpin 2000; Hirst et al. 2009).

The realist perspective draws on a quantitative definition of globalisation, one that is concerned about 'quantifying' globalisation through the identification

of suitable measures for all of the elements which are generally included within its scope. Then (neo)-realist scholars have proceeded by comparing the ideal type of the 'globalised economy' with the ideal type of the 'internationalised economy', using data on the performance of the real economy to verify to what extent one or the other ideal type corresponds to the actual state of the world economy (Hirst and Thompson 1999a, b; Hirst et al. 2009).

Similarly, Gilpin (2000, 2001) demonstrates the extent to which the relevance of economic globalisation is grossly overstated. In fact, he argues, the world economy still fundamentally relies on the centrality of the nation state, the interests of which are increasingly catered for within integrated regional schemes. Starting always from a quantitative definition of globalisation, Gilpin identifies it with the increase in the integration of the world economy produced by a multiplicity of factors, such as increases in trade flows, in the developments of international finance, and in the activities of multinational companies (Gilpin 2001). Evidence allows the author to conclude that such an increase has been 'highly uneven, restricted to particular economic sectors and not nearly as extensive as many believe' (Gilpin 2001: 364). Indeed, there is no doubt in his mind that the level of economic integration was much higher during the period of the gold standard; in relative terms, the level of financial transactions and trade flows was greater even in the late nineteenth century (Gilpin 2001). Further, despite the fact that in the twentieth century these flows were larger and faster in absolute terms, they were mainly concentrated within clearly defined regional economic areas dominated by regional hegemons.

With respect to financial globalisation, Gilpin notes how integration of financial markets is still limited to speculative and short-term investment. Yet, if globalisation were a reality, he claims, the so-called law of one price would be respected. This is considered often the most important measure of economic integration, according to which identical goods would have identical prices in a perfectly integrated economy (Gilpin 2001: 368).

Hirst and Thompson (1999a, b; Hirst et al. 2009) are the main proponents of the thesis that globalisation is essentially a myth. In fact, for them, globalisation does not exist even as the 'end' of an ongoing process, whereas there is a clear trend towards regionalisation as the bigger and more powerful states seek to maximise their power. By contrasting the notion of a globalised economy with that of an 'internationalised' world economy (Hirst et al. 2009 Introduction) in which 'the principal entities remain national economies, or agents that continue to be primarily located in a definite national territory' (Hirst and Thompson 1999b: 140), these scholars come to the conclusion that the latter is still prevailing over the former.

In sum, for realists, the idea of the globalised economy is a myth. They claim that the world economy is still concentrated in the hands of key nation states and therefore intergovernmental solutions to the problems of the world economy are the only feasible ones. In turn, the myth of globalisation is utilised by those key hegemonic states to consolidate their power at both the international and regional level.

Ultimately, this conclusion is the outcome of adopting a quantitative definition of globalisation. After realising that measures of globalisation do not confirm its existence or its relevance as a new phenomenon, they come to the conclusion that it is a convenient myth. However, the adoption of this quantitative definition of the phenomenon does not allow them to identify its salient and distinctive characteristics as a new phase in the development of capitalist economies.

The Globalist Perspective

If realists mainly adopt a sceptical approach to globalisation, liberal institutionalists are clearly 'globalists'. Thus, whereas, for realists, globalisation is mostly a convenient myth in the hands of the most powerful nation states to justify their hegemony, for liberal institutionalists, globalisation is a fact that cannot be juxtaposed against any previous instances of international market integration (Held and McGrew 2000).

Despite adopting a definition of globalisation similar to the realists, the globalists maintain that the data do undeniably confirm the existence of the phenomenon. Moreover, they argue that this process of global integration is pretty advanced and brings with it a number of 'transformations' at all levels of governance, from the national to the local and the global, producing a total reshuffling of already existing and well-established institutional settings.

The definition of globalisation given by globalists is still a mainly quantitative one. According to Keohane, for example, globalisation is the intensification of transnational as well as interstate relations. For David Held, globalisation 'suggests a growing magnitude or intensity of global flows such that states and societies become increasingly enmeshed in worldwide systems and networks of interaction' (Held and McGrew 2000: 3), while in Phil Cerny's conceptualisation globalisation is brought about by interaction through denser economic relations amongst states (internationalisation) and denser relations cutting across states (transnationalisation) (1999, 2010).

However, contrary to realist analyses, neo-institutionalist ones propose evidence showing the emergence of a completely new phase in the evolution of

the global economy. This is characterised by an increase in the level of economic interactions between states and an increase in the number of economic activities overcoming national boundaries to acquire a global dimension. According to Held, this historically distinctive form of globalisation dates back to 1945. To distinguish this phase from previous historical waves of internationalisation, Held identifies four different types of globalisation according to four spatio-temporal dimensions: *extensity*, *intensity*, *velocity*, and *reciprocity* between local and global development. The argument states that all of these dimensions are quantifiable and need to be measured to know which phase of globalisation we are currently in (Coleman and Sajed 2013: 122–123).

The four types of globalisation identified by Held are: *Thick Globalisation,* characterised by high extensity, intensity, velocity, and reciprocity; *Diffused Globalisation,* in which the first three dimensions are high, but reciprocity is low; *Expansive Globalisation,* where only the first two dimensions are high; *Thin Globalisation,* when there is only an extensity of connections. Obviously, for this scholar, the current phase is one of Thick Globalisation (Coleman and Sajed 2013: 122–123).

As noticed earlier, both sceptics and globalists start from a similar quantitative definition of globalisation defined as: 'The intensification of economic, political, social, and cultural relations across borders' (Holm and Sørensen 1995: 12). However, it is precisely the insistence on measurable phenomena which leaves unsolved a number of questions. These relate first of all to the nature of the relationships existing between the economic, the political, and the social dimensions of globalisation. Indeed, it does not even specify whether there is any relationship at all. Furthermore, insisting on quantitative elements does not help identifying the causes and consequences of globalisation, making it extremely difficult to relate it to other phenomena, such as the marginalisation of the Middle East and North Africa (MENA) area. It is, therefore, necessary to deepen the perspective by adopting a qualitative definition.

A Qualitative Definition of Globalisation

From the qualitative point of view, globalisation is approached as an ongoing process of qualitative, structural transformation which is characterising the current historical phase of development of the capitalist economy (Dicken 2007; Mittelman 2000). Understood this way, there is no possibility of denying its existence. Moreover, this perspective entails a number of elements which concur to identify it as a process, or, in the words of Mittelman (2000),

	Sceptics	Globalists
Quantitative definition	Realists	Liberal institutionalists (Transformationalists)
Qualitative definition		**Transnationalists** (Hyperglobalists)

Fig. 26.1 Dichotomies in the globalisation debate

a 'syndrome'. These elements tend to influence each other, not in a predetermined causal relation, but dialectically, allowing identification of the direction of change and, in some cases, enabling reaction. The components of this qualitative definition of globalisation are technological development, spilling over into the transformation of both the financial and the productive structures through the geographical restructuring of production, and the establishment of a new global division of labour and power (GDLP). As a consequence of this structural transformation, the social and political systems also change, producing a polarisation of wealth, the subordination of politics to economics and the related decline of the nation state, and instances of commodification (Mittelman 2000; Overbeek 2000). This can give rise to populist phenomena (Frieden 2017).

Figure 26.1 shows the dichotomies identified so far in the debate about globalisation alongside the two dimensions of whether the IPE approaches considered are sceptical or believe in the existence of globalisation and whether they adopt a qualitative or a quantitative definition of it.

What Are the Consequences of Globalisation?

As we have seen earlier, from the realist perspective, the concept of globalisation is a convenient myth in the hands of politicians or public opinion makers which can be used to justify the persistent hegemony of the most powerful nation states. If globalisation hardly exists, any new trends in the IPE may be easily explained by making reference to the nation state (Gilpin 2000). It becomes, therefore, redundant, from this standpoint, to talk about the consequences of globalisation.

Instead, liberal institutionalists maintain not only that globalisation exists but also that it is rather different from any previous historical waves of internationalisation. From this perspective, the main consequence of globalisation is the transformation of both national and international institutional settings. This, in turn, is the consequence of the changes induced by globalisation on

the nation state. However, contrary to the transnationalist perspective, from the liberal institutionalist point of view, the nation state is able to survive globalisation, subject to changing substantially not only its role vis-à-vis its citizens but also its position in the international system and even its functions (Cerny 2010).

To be precise, Cerny (1999) identifies the following two dimensions to the transformation of the state as induced by globalisation:

1. The state modifies the perception of its role in the economy and in the provision of 'public goods'.
2. States modify the way they interact economically with each other in the international system, creating interdependences and international linkages.

Related to the first aspect, the multiplication of international or transnational relations and interactions produces a new complex and multilayered institutional framework. On the one hand, this renders identification of which institution is responsible for which public good more difficult; on the other hand, it makes it more difficult to define what a public good is (Heritier 2002; Talani 2003).

Not only has the state transformed internally, with respect to its domestic role, from the welfare state to the externally oriented competition state, but it has also modified its position in the international system with respect to the way in which it interacts with the other states. Whereas before globalisation its interactions with the international system relied heavily on security and defence, now the state, both in the developed and in the underdeveloped world, has shifted its priorities to business, trying to attract it by, for example:

- Substituting the macro-level of policymaking with the micro-level (e.g. reduction of labour costs).
- Cultivating a 'dynamic competitive' advantage which requires a more flexible economic structure.
- Attracting foreign investment by adopting a neo-liberal macroeconomic agenda based on low inflation and a stable economy.
- Promoting profitability and efficiency in both the public and the private sector (Cerny 1999).

In contrast to the approaches analysed thus far, the transnationalist perspective puts emphasis on a definition of globalisation as a structural phenomenon, characterised by a number of qualitative transformations which have defined the current evolutionary phase of capitalism (Mittelman 2000;

Overbeek 2000; Dicken 2011). Unlike quantitative definitions, the qualitative one adopted by transnationalists eliminates the necessity to measure the different components of globalisation in order to prove its existence. In fact, it is the mere presence of a series of intertwined structural transformations that constitutes the ontology of globalisation. For these reasons, globalisation, from this perspective, cannot end, unless a major technological cataclysm takes place.

James Mittelman (2000, 2004: 6) famously dubbed globalisation a 'syndrome' of ontologically related phenomena that acquire meaning by their coexistence in a given historical moment and by the relation that they bear with each other (similarly also Dicken 2007: 8).

Importantly, the relationships between the phenomena included within the scope of globalisation are not random. On the contrary, globalisation is defined within a precise framework. Therefore, the accusations of 'vagueness' that are often leveraged against transnationalist scholars by mainstream ones (such as Hirst and Thompson 1999a) are unfounded.

The Importance of Technological Change in the Transnationalist Approach

For the purposes of this chapter, technological development is considered an exogenous component of globalisation, although the debate about its sources is an important one (Overbeek 1995, 2000). Technological development is the engine of the process of globalisation and the factor determining transformations in the realms of finance and production (Dicken 2007, 2011), as well as in terms of socio-economic relations and political arrangements (Sassen 1988, 1991, 1996; see also Brass and Hornsby (Chap. 38), this volume).

To start with, technological progress is at the root of the extraordinary developments of financial markets that often go under the name of financial globalisation, defined by transnationalists as around-the-clock, 24 hours a day, and seven days a week access to financial transactions all over the globe (Cohen 1996: 269; Strange 1996). Paradoxically, however, the physical location of financial markets, instead of losing significance, becomes even more important. Indeed, the literature underlines how financial globalisation 'made geography more, not less, important' (Dicken 2003: 59). Not only did financial power not change location but it became surprisingly even more concentrated in a handful of urban centres, such as London, New York, and, to a lesser extent, Tokyo, as innovation and infrastructure become the new competitive advantage. This concentration is unparalleled in any other industries,

despite the fact that financial markets are usually considered as extremely mobile (Dicken 2003: 462). This concentration of financial activities and services in specific urban centres resonates with Sassen's assessment of the role played by global cities in the intersection between the global and the local (Sassen 1991).

Furthermore, the role of domestic financial elites in financial globalisation has been enhanced, thanks to the fact that globalisation increases their bargaining power (almost blackmailing) within the national polity and vis-à-vis the national government. This leads to a shift in the power relations between the different domestic socio-economic groups that cannot be underestimated. Similar dynamics not only concern the developed world but also underdeveloped countries where the establishment of offshore markets has produced incredible transformations of the local economic structures and dramatically modified domestic power relations (Lilley 2000; see Cooper in this book). Not that the definition of offshore refers only to the geographical location of financial activities; instead, it mostly regards their juridical status. Indeed, a great number of offshore financial activities take place in the most established financial centres, such as London, New York, and Tokyo (Palan 2003: 2).

From this globalisation of financial markets, there has also come an increase in the sensitivity of capital to interest rates, reducing, in the long run, the possibilities for nation states to adopt differentiated monetary and, consequently, macroeconomic policies. This decreases the state's capacity to control the national economy (Padoa-Schioppa 1994; Cohen 1996; Obstfeld and Taylor 2004).

The roots of the crisis of authority experienced by nation states both in the developed and in the less developed world can be found in these phenomena. The limitations posed by globalisation on the effectiveness of national macroeconomic policy action are indeed very significant and can lead to serious unrest. Contrary to institutionalists, in the minds of transnationalists the loss of the national level of economic governance is not compensated by the creation of multilayered systems of economic governance spanning from the local to the supranational level, if not partially and only in certain regions of the world, such as, most evidently, the European Union. In this way, the crisis of authority and legitimacy of the nation state induced by the loss of economic sovereignty within globalisation, as further elaborated later, is recognised as one of the most dangerous developments of this phase of capitalist development (Overbeek 1999, 2000; Van der Pijl 2011) (Fig. 26.2).

Technological progress is also the driving force behind the process of the global restructuring of production and its related geographical reallocation. This happens through foreign direct investment (FDIs), mergers and acquisitions

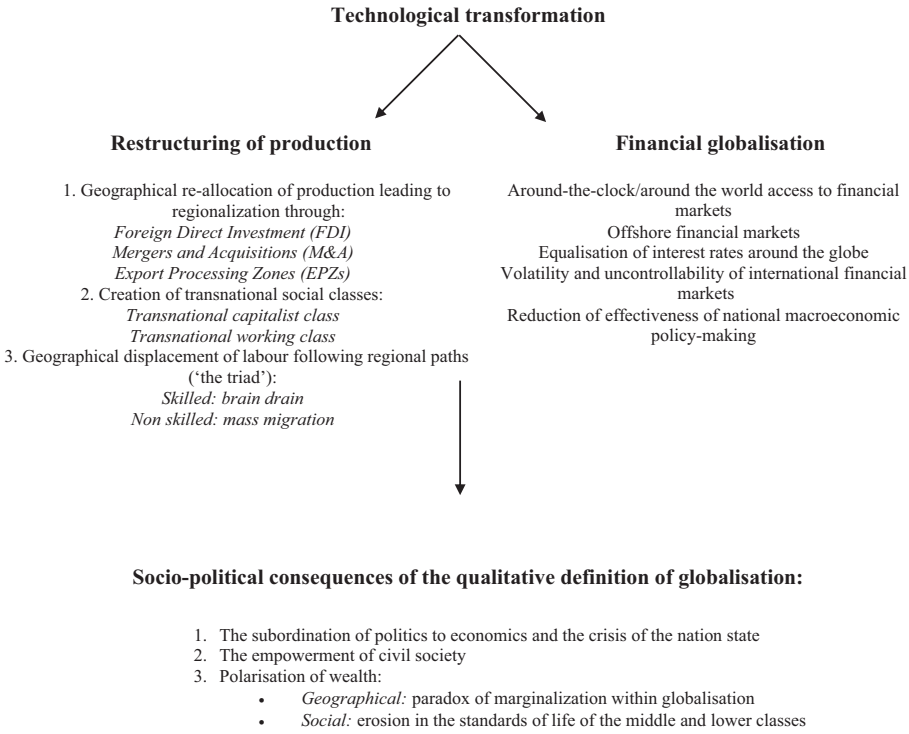

Fig. 26.2 Components of the qualitative definition of globalisation

(M&As), and the creation of export processing zones (EPZs). Indeed, technological development greatly improves the ability of transnational corporations to modify their productive chains to exploit geographically displaced cost-reduction opportunities, thanks to cheap transport, distant labour control, or economies of scale in specific locations. Here, again, the capacity of the nation state to resist similar developments is greatly undermined by the increased bargaining power of transnational companies.

However, this process is not happening evenly throughout the globe. On the contrary, one of the main characteristics of this global restructuring of production is the importance of regionalism in the global political economy (Mittelman 2000: 41; Dicken 2007: 33; see also Krapohl (Chap. 6), this volume). Here, regionalisation is singled out as a step towards globalisation. There is not, however, a single pattern of regionalisation; not all regions are being integrated into the global political economy, and this gives rise to instances of geographical marginalisation (Mittelman 2000: 56; Dicken 2007).

Taken together, the dynamics referred to earlier lead to a new GDLP (Mittelman 2000). This is characterised, on the one hand, by the geographical

displacement of production alongside regional patterns to exploit, thanks to technological progress and cost-reduction opportunities. On the other hand, it is accompanied by a dramatic increase of brain drain and mass migration from regions not included in the globalisation and regionalisation processes (Mittelman 2000). As a consequence, labour costs decrease not only in less developed countries but also in industrialised ones. This new division of labour thus not only leads to lower costs of production by reallocating production abroad but by hiring immigrants, especially illegal ones, in national economies. It also lowers the costs of production at home by increasing the pressure on trade unions and reducing their bargaining power, thanks also to constitutionalisation of disciplinary institutional arrangements at the national or at the regional level (Gill 1997).

Furthermore, this restructuring of global production, together with the transformations induced by financial globalisation, also modifies social and political relations at all levels of organisation, from the local to the global (Mittelman 2000; Dicken 2011; Overbeek 2000). At the national level, the most notable political consequence of globalisation, as further elaborated in the next section, is the subordination of politics to economics and the related crisis of the nation state. The state is unable to control economic forces and guarantee prosperity, jobs, and social protection to its citizens, thus producing tensions (Overbeek 2000). Among the social consequences of the processes described thus far, there is the empowerment of civil society, thanks to technological development and its renewed propensity to challenge the state whose fading authority is less likely to be recognised as legitimate (Mittelman 2000).

Concluding, from the transnationalist perspective, the process of globalisation as defined to this point is not neutral in social and wealth terms but entails new social cleavages and challenges, as well as new winners and new losers (Mittelman 2000, 2004).

Can Globalisation Be Governed?

For realists, the nation state remains firmly at the centre of the international system and its capacity to act is not altered in any significant way. Hirst et al. are critical of the generalised idea that the national level of governance has become obsolete, and that it is time for more supranational systems of governance. The new political rhetoric which they term ‘an anti-political liberalism’ (Hirst et al. 2009: 225) is meaningless, when it is not dangerous (Hirst et al. 2009: 226). The idea that in a globalised economy markets and companies are

now able to move freely from the intrusion of an interventionist state is gift to the far right, which obviously exploits this myth to the maximum. It allows right-wing politicians to spread the idea that state-controlled workers' rights make national economies uncompetitive, and in doing so it reduces the bargaining position of workers and workers' associations in both developed and less developed countries. To this extent, far from being a reality, globalisation is a convenient myth (Hirst et al. 2009: 226).

Given that this is the case, the authors prefer to 'ditch' the dangerous idea that globalisation has brought about new modes of governance and suggest that we concentrate on how to reinstate 'the state' in economic governance. From this perspective, the state remains the only actor which is able to govern (Hirst et al. 2009: 240).

In the liberal institutionalists' view, instead, the state cannot govern globalisation alone, given the many transformations that it is subject to. The consequence is a shift in the level of governance from the national to the international level and a multiplication of the sites of power. Thus, starting from the same quantitative definition of globalisation, the two mainstream schools of IPE reach opposite conclusions: for institutionalists, the process of transnationalisation of the world economy is considerably advanced and brings about a number of transformations in the national and international governance structures which require completely different solutions to previous institutional arrangements. Needless to say, this multiplication of transnational linkages makes the national level of governance insufficient and inadequate, bringing calls for new forms of governance which transcend nation states (see Sinclair (Chap. 5), this volume). From this perspective, the global economy appears as a web of interdependent and interconnected activities performed at different institutional levels by actors who are increasingly detached from the national level of governance.

Summing up, the globalisation process is happening within the yet-to-be-defined institutional terrain of the competition state at the national level and an increasingly fragmented international regime of undetermined institutions. Thus, this is still an ongoing process of institution building, but one which is both unavoidable and necessary. The contours of the process are still uncertain, as much of its outcomes will depend on the actors who will take its lead (Cerny 1999, 2010).

For institutionalists, a crucial role as agents of change is played by political institutions and political actors acting to integrate the national, the international, and the transnational levels in a multilevel governance system. In addition, the competition state multiplies the number of layers and cleavages of

the world economy, increasing the complexity and density of networks in an evermore interdependent and inter-penetrated global political economy (Keohane 2000).

According to Rosenau (2002: 71), globalisation brings about a fragmentation of authority which is increasingly associated with diverse spheres of governance. It follows that governance in the globalisation era can only happen in a multilevel/multicentric fashion. Authority is thus not exercised only at the central level by the government but is diffused in a multiplicity of formal and informal networks, thus becoming 'governance'. As he claims:

> While the rule systems of governments can be thought of as structures, those of governance are social functions or processes that can be performed or implemented in a variety of ways at different times and places (or even at the same time) by a variety of organizations. (Rosenau 2002: 72)

Rosenau identifies a multitude of institutional actors of change in the creation of this new governance system (Rosenau 2002: 80).

- Formal governmental institutions
- Formal international Institutions
- NGOs, at all levels of governance, from local to transnational
- Transnational Corporations
- Markets

Consequently, globalisation can be governed by new governance systems, which are in turn categorised by Rosenau as six different types, according to two main variables: processes and structures (Rosenau 2002: 81).

In Cerny's analysis, global political processes are characterised by 'transnational pluralism' (Cerny 2010). Globalisation multiplies the amount of international and transnational policy spaces, giving rise to a new form of pluralist politics. This new approach to politics is no longer under the exclusive control of the state. Instead, there is a sort of de-nationalisation of politics which is now increasingly stratified in a multilevel fashion according to different issue areas. This empowers new political actors and disempowers the state (Cerny 2010). As argued by Cerny, globalisation

> strengthens the hands of transnationally linked interests and actors and shifts the balance of agenda setting, policy bargaining, and policy outcomes towards globalizing coalitions and protocoalitions. (Cerny 2010: 127)

Moving further along Cerny's and Rosenau's neo-institutionalist line of reasoning, David Held (1995, 2002, 2010) believes that the only way to govern globalisation is by establishing a 'cosmopolitan democracy'. Given that national autonomy and sovereignty have become obsolete in the Thick Globalisation era and that nation states are now irreversibly embedded in a broader legal and governance framework, what is needed is to build on them to achieve cosmopolitan values.

As already underlined, in the transnationalist perspective of globalisation, it is technological change which represents the engine of transformation of both the productive and the financial structures. In political terms, the overcoming of national boundaries for the exploitation of global financial and productive opportunities modifies the existing balance of power between national political institutions and increasingly globalised economic elites. The global restructuring of production allows the latter to exert credible political pressure at the domestic level, asking for favourable macroeconomic policies in exchange for not moving economic activity abroad (Strange 1998; Mittelman 2004). This threat, in turn, acquires credibility, thanks to technological development, which makes the possibility of easily moving capital across the border and displacing production truly effective (Overbeek 1995).

The debate is still open in the academic and political circles about whether this leads to a total loss of power in national politics with respect to globalising capital or if there is on the contrary still a margin for reaction from national political actors (Garret 1998). Some authors (Mittelman 2000: introduction; 2004) advocate the activation of a 'double-movement', Polanyi style. After a phase of triumphant liberalism and of subordination of politics to economics, the losers of globalisation might react producing a counter-movement and allowing for a new social equilibrium to be established.

In conclusion, to answer the question posed by Giddens of whether globalisation can be governed, we need to distinguish again between different IPE approaches (Gale in this book). For realists, there is no doubt that the nation state is still in charge of the national and IPE. For liberal institutionalists, the state is being transformed by the globalisation process and a new multilevel institutional system is emerging as an alternative to govern an increasing complex and interdependent global political economy. Finally, according to transnationalists, globalisation can hardly be governed as it entails an increasing subordination of politics to economics and a loss of power by the state to control internal and external economic processes. This incapacity of the state to react to global restructuring is at the root of social instability

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27

Sovereign Wealth Funds and International Political Economy

Xu Yi-chong

Funds owned by sovereign states for long-term investment purposes existed for over a century before they were dubbed sovereign wealth funds (SWFs) in 2005. In the following three years, their size, speed of growth, ownership, and, more importantly, what they stand for in a changing global economy triggered much heated debate among practitioners and academics. After the breakout of the global financial crisis in 2007–08, global attention shifted elsewhere, even though SWFs continued expanding in number as well as size. In 2005, the aggregated total assets under management of SWFs were estimated at about US$ 895 billion (Rozanov 2005). By the second quarter of 2016, they had grown to US$ 6000 billion (Stone and Truman 2016). In a span of less than a decade, the fear of SWFs was replaced by a sense of indifference or even hope and encouragement as a few SWFs played an important role in stabilising their national economies. Ireland's SWF, for instance, though created as a pension fund, was used to support Irish banks during the global financial crisis and manage the country's own economic crisis in the aftermath. The fund was then restructured as an investment fund, a real SWF. The Russian National Welfare and Reserve Funds were drawn upon to support the Russian economy as it was pressured by the sanctions imposed by the United States and the European Union (EU).

Meanwhile, SWFs continue engendering controversies. Should governments set aside and invest proceeds from natural resources, trade surpluses, or

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fiscal surpluses for future use while domestic demands for capital are high? What institutional structures should SWFs adopt to ensure both public accountability and no direct government intervention? What are their investment strategies? And are they intended to obtain geopolitical, geostrategic, and/or geoeconomic objectives? Some see SWFs as 'a vital component of a country's economic development strategy, particularly in low- and middle-income resource-rich countries' (Bacher et al. 2016, 97; see also Sandbu 2006; Dixon and Monk 2014; Gelb et al. 2014) because SWFs can be useful instruments to discipline government in its spending. Some reject this view, arguing that countries that need to develop have more urgent uses for scarce capital than investing and waiting for the future. Others have reversed the position before the global financial crisis in 2007–08 that SWFs from non-democratic countries, especially those from China, are the stalking horse of state capitalism (Cohen 2009) and/or are artificially created to leverage their bargaining power against advanced industrialised states (Drezner 2008). Instead, these scholars argue that SWFs often behave in a similar manner worldwide, regardless of their owners, and there is little evidence that SWFs from non-democratic countries have caused disruption in advanced capital markets or have constituted any threat to the capitalism as many feared (Chwieroth 2014). In sum, a decade after SWFs gained their world attention, 'the sky did not fall' (Bortotti 2016) after all, and they have expanded in numbers and size.

Discussions of SWFs are diverse: SWFs as investors (Kimmitt 2008), SWFs as investments (Cumming et al. 2017), SWFs as proxies for international rivalries (Norris 2016), or SWFs as distinct interests (Gilson and Milhaupt 2008). Different arguments about SWFs may or may not have much to do with what SWFs actually do, how they are structured and governed, how they operate, or what their investment strategies, horizons, and profiles may be. Scholars pick up one aspect of these investment funds and examine them with the associated ontology. Questions—such as whether SWFs are 'friends or foes', threats or contributors to national economies, market stabilisers or destructive forces—may simplify both the complicated nature of these investment instruments as used by governments as well as their impact on the interconnected global economy. The rise and expansion of SWFs may only be indicative of a much larger issue of the global economy—a long-term global payment imbalance has gradually shifted global balance of economies.

The first section of the chapter briefly discusses SWFs: their funding sources, motivations for their creation, legal and organisational status, and, more importantly, domestic and external concerns regarding SWFs. The emergence and expansion of SWFs in the first decade of the twenty-first century are only one of the many symptoms of a changing global economy. The

second section discusses the collaborative efforts of SWFs to negotiate a set of rules to ease concerns. While attention to SWFs seems to have been replaced by other urgent matters in the aftermath of the global financial crisis, such as sovereign debts in several European countries, a few resource-dependent developing countries established their own SWFs as part of the global policy mutation. However, these African and Asian countries face different challenges in managing their SWFs from those oil-exporting and trade-surplus countries. The last section of this chapter highlights some of the challenges developing SWFs face and reiterate how SWFs are shaping international political economy (IPE).

Sovereign Wealth Funds and Their Concerns

SWFs vary significantly in the sources of their assets, their structure, governance, policy objectives, risk-return profiles, investment horizons, and levels of transparency (see Appendix). Their holding countries differ too: in size (China with population of 1.33 billion and Equatorial Guinea with population of 1.2 million), wealth (Norway with GDP per capita of US$ 70,812, and Rwanda with GDP per capita of US$ 703 in 2016), and in their political systems too (democratic vs. non-democratic). At the time when state-owned investment instruments were named SWFs in 2005, Rozanov identified 22 SWFs with total assets under their management smaller than that of the Norwegian SWF today. In 2005, Norway was the only country from the Organisation for Economic Co-operation and Development (OECD) on the list. Of the 22 SWFs, 15 derived their funds from oil and other resources. In 2008, in contrast, Government Accountability Office (GAO) identified 48 SWFs: '28 have been established since 2000 and 20 of these can be classified as commodity funds that receive funds from selling commodities such as oil' (GAO 2008b: 11). The other major source of SWFs is trade surpluses or fiscal surpluses. In 2016, the number of SWFs in some studies reached 73, belonging to 43 countries; 11 of them are subnational, increased from only 2 in 2005 (Alaska Reserved Fund in the United States and Alberta Heritage Fund in Canada), and mainly from OECD countries: Australia [2], Canada [1], and the United States [7] (Stone and Truman 2016). Another important feature is that 12 SWFs managed nearly 70% of the total assets. These SWFs belonged to only nine countries: Norway, China, UAE, Kuwait, Hong Kong, Singapore, Qatar, France, and Russia.

The contemporary SWFs can be traced back to 1953, when the Kuwaiti government created the Kuwait Investment Authority. They, nonetheless, did

not draw any international attention among academics and some practitioners until 2007 when the Chinese government created its SWF—the China Investment Corporation (CIC)—by injecting US$ 200 billion into it[1]—a sum larger than the GDP of most countries in the world. Other large SWF-holding countries then included UAE, Qatar, and Saudi Arabia. The amount of the assets and their owners—non-democratic countries—raised alarms around the world. 'What is the problem: S, W, or F?' asked Jonathan Kirshner (2009: 311). For many, the most important issue is about 'S'—the ownership of this type of investment funds. SWFs are the current incarnation of the tension between competing forms of capitalism—state capitalism as opposed to market capitalism—and they simultaneously embody rising economic nationalism (Lyons 2007; Summers 2007). Underlying these claims is a fundamental ideological debate over the role of the state and the role of the market. 'Sovereignty is a powerful and deeply emotive word [and] has for centuries been invoked to defend inalienable power of the state, internally and externally, even as the political organisation of states has been turned on its head' (Steil and Hinds 2009: 240). Labelling these investment funds as 'sovereign' funds provoked strong emotions against SWFs as they represented the 'cross-border nationalisation of private companies', (Hildebrand 2007: 6) and thus threatened liberal democracies, although there was no evidence that such cross-border nationalisation was taking place.

Underlying these concerns is the assumption that a 'sovereign' state inherently pursues interest maximisation at the expense of others. These interests are broader than economic ones and can be strategic or political. Discussions of the political and strategic motivations of SWFs focus on the combination of S and F, sovereignty and funds, as investment instruments. Given that more than two-thirds of SWFs are in the hands of non-democratic states, the concern seemed genuine that their investments would threaten national security and interests of others. Immediately, some countries declared that some financial and industrial institutions would be beyond the reach of SWFs. For instance, in 2005, the French government announced that it would include 'Groupe Danone', a world-renowned dairy producer, on a list of 20 French companies shielded from foreign takeovers, and in Switzerland, 'the banking

[1] The initial capital of China Investment Corporation (CIC) was sourced by the government's domestic debt issuance, which made the source and costs of the fund very explicit. That is, when the CIC was established in 2007, the Ministry of Finance issued a number of tranches of special 10–15-year treasury bonds, totalling approximately US$ 200 billion, to buy the foreign currency from the US$ 1.4 trillion in foreign exchange reserves (at rates ranging between 4.3% and 4.68%) and then injected the funds into the CIC. In so doing, the CIC has an implicit nominal hurdle rate, which is about 4.5% plus appreciation (or minus depreciation) of Renminbi (RMB).

sector is unquestionably of strategic importance for the economy [and] political intervention would therefore be required' if SWFs tried to invest in Swiss banks (Monk 2009). In March 2006, four days after the Committee on Foreign Investments in the United States (CIFUS) approved Dubai Ports World's—a UAE-owned company—deal to manage six ports in New York, Miami, Newark, Philadelphia, New Orleans, and Baltimore, the deal collapsed under an unrelenting bipartisan attack in Congress (Kaplan 2006; Sanger 2006). These actors were concerned SWF investment decisions can be easily hijacked by governments for political aims and argued it was therefore important to 'ensure that the investment decisions of SWFs are not driven by political objectives' (Hildebrand 2007).

The arguments against SWF investment in the name of protecting national security, national interests, or national champions faded quickly with the start of the subprime crisis in the United States in late 2007, which sent the global economy into a tailspin and quickly spread into a global financial crisis in 2008. Some financial institutions in OECD countries needed immediate capital injections to survive and SWFs from non-OECD countries were happy to 'help'. For example, CIC invested US$ 3 billion in Blackstone Group in May 2007, US$ 5.6 billion in Morgan Stanley (USA) in December 2007, US$ 100 million in Visa (USA) in March 2008, and US$ 5.4 billion in Reserve Primary Fund (USA) in September 2008 (Martin 2010). Times had changed and so did the argument: investment from non-OECD SWFs was now acceptable because OECD countries had long established their equivalent institutions like CIFUS to review foreign investment and had faith that their legal and regulatory regimes would be able to regulate incoming investments, including those made by SWFs (GAO 2008a, b).

Global Solution

Since SWFs are the by-products of global financial imbalances (Xu 2010; see also Vermeiren (Chap. 17), this volume), any concerns about SWFs would be 'global' and involve changing behaviour of both current account surplus and deficit countries. None of these actions could be taken unilaterally without having serious consequences for others. More importantly, the global financial imbalance is not a simple economic issue; it is a geopolitical one. In an integrated world, the issues concerning SWFs require a global solution and collective actions. Given that there is no 'higher authority' over all these so-called sovereign investors, politicians in some OECD countries have pushed for 'tough control' over these investments. At the Group of Seven (G7) Finance

Minister meeting in October 2007, ministers discussed SWFs for the first time and agreed in their communiqué that the International Monetary Fund (IMF), the World Bank, and the OECD should explore best practices for SWFs in key areas, such as institutional structure, risk management, transparency, and accountability. The IMF grabbed the opportunity as its credibility had suffered disastrously after the Asian financial crisis and its business had been declining to the extent that the profits from its lending could not even cover the operation and support its staff. SWFs offered a good opportunity for it to revive itself.

Even though reluctant initially, developing SWF-holding countries realised that it would be in their best interest to 'cope with a far-from-hospitable receptions by a number of Western leaders and their public' (Behrendt 2008: 3) through collective efforts and to resist attempts to implement unilaterally determined restrictions. Sitting at the negotiation table, they would be able to express their concerns, make their voices heard, and shape both which rules were made and how rules would be written. In November 2007, SWFs backed by their governments agreed to engage in negotiations on rules regulating SWFs. In April 2008, representatives of 26 IMF member states with SWFs met in Washington, D.C., and formed the International Working Group (IWG) of SWFs. The IMF was asked to co-chair the Group and served as its secretariat in the following process. A subgroup of the IWG, chaired by David Murray, the chairman of the Board of Guardians of the Australian Future Fund, was designated to draft the principles, which then underwent numerous rounds of discussions, reviews, and revisions by the whole IWG. These discussions received considerable input from several recipient countries, including the United States, which commented on the draft of the new rules and participated in 'selected sessions at IWG meetings'. In October 2008, the IWG adopted the Generally Accepted Principles and Practices (GAPP) for SWFs, known as the Santiago Principles, by consensus in Santiago, Chile. It is important to emphasise that these negotiations were conducted among SWFs which were members of IWG, and they also held three rounds of discussions with recipient countries.

SWFs of developing Asian and Gulf countries became actively involved in the process of drafting the GAPP and creating the Forum. This was the reverse of the position both had wanted to take merely a year earlier. The IWG and its work, GAPP and the Kuwait Declaration that created the Forum of SWFs, might not satisfy all those who were suspicious about their intentions and investments. They can be seen as part of the efforts to build 'a global constitutional order that is pluralistic rather than hegemonic, one that better accommodates the increasingly diverse world in which we actually' (Calleo 2009:

188). This may help us explain the shift from SWFs' initial reluctance to have any rules regulating them to becoming the willing participants in the new rule-making. In the process, however, the financial crisis dried up the credits. Financial and industrial institutions in many OECD countries needed injections of a large amount of capital, and their government shifted their positions on the investment from non-OECD SWFs, emphasising the adequate regulations on foreign investment in place to ensure the protection of national interests and security.

Many large SWFs shifted their positions too: several, such as CIC, suffered heavy losses by investing in companies in the United States and Europe; they were on the edge of collapse in 2007–08, and they then faced immediate domestic criticism in 'rescuing' some of the old financial institutions. By the first half of 2009, some SWFs were licking their wounds by replacing key managers (Norway), reshuffling/combining operations (Dubai World), or shifting away from the financial sector. Singapore's Temasek was a case in point: financials accounted for a whopping 40% of its portfolio in early 2008 but fell to 33% a year later. As differences among SWFs widened, the richest countries in the group, in terms of either unused reserves (China) or lower domestic spending needs (Abu Dhabi, Norway, Qatar), expanded their equity purchases around the world. In general, however, direct investment by SWFs declined steadily from the peak of US$ 112 billion in 2008 to the record low of US$ 40 billion in 2016, a reflection of the global trade situation, the decline of world oil prices, and political turmoil in some regions, especially the Middle East (Bocconi 2017: 16).

Global Policy Mutation

While many OECD countries were hit hard by the global financial crisis, developing, and especially emerging, economies, while affected by the global credit crunch, were by and large spared from its negative effects. What emerged was an interesting development of SWFs: while some European countries were struggling with their sovereign debts and depended on foreign investment, including that of SWFs, to bail out their financial and industrial institutions, some of the poor developing countries made a great effort to create or expand their SWFs. Many of these new SWFs are in Africa. Specifically, developing countries accepted the advice from multilateral institutions to set aside a portion of the proceeds from exporting natural resources to smooth commodity price fluctuation cycles and/or equalise wealth distribution among generations (Le Borgne and Medas 2007; Collier et al. 2010). Indeed, by one

Table 27.1 Selected new SWFs from developing countries

Country	Name of SWFs	Inception year	US$ billion
Mongolia	Fiscal Stability Fund	2011	0.3
Bolivia*	FINPRO	2012	1.2
Colombia	Colombia Savings & Stabilisation Fund	2011	3.6
Panama*	Fondo de Ahorro de Panama	2012	1.2
Angola	Fundo Soberano de Angola	2012	4.6
Nigeria	Nigeria Sovereign Wealth Fund	2011	1.4
Gabon	Gabon Sovereign Wealth Fund	2011	0.4
Ghana	Ghana Stabilisation Fund	2011	0.45
Senegal*	Senegal FONSIS	2012	
Rwanda*	Agaciro Development Fund	2014	0.04
Iran	National Development Fund	2011	91

Note: *Indicates sources of funds of SWFs are not from commodities
Source: Sovereign Wealth Fund Institute, at https://www.swfinstitute.org/sovereign-wealth-fund-rankings/; Adam D. Nixon, 'The Rise, Politics, and Governance of African Governance of African Sovereign Wealth Funds, The Brown Capital Management African Forum, Wilson Centre, 14 June 2016

account, 60% of resource-dependent countries now have some form of investment funds (see Table 27.1) and others, such as Kenya (2014), Mozambique (2014), Namibia (2015), Uganda (2015), and Zambia (2014), were finalising their policy framework to create SWFs (Bortotti 2016: 10:13). As a part of the process of global policy mutation, they also wanted to follow in the footsteps of some successful older SWFs, not only the Norwegian one but also the Botswana's Pula Fund, to prevent predatory politicians from engaging in illicit or wasteful domestic investments (Dixon and Monk 2014).

Whether they were established with the encouragement of multilateral institutions or as a result of policy learning from successful stories of older SWFs, new SWFs from developing countries and their governments faced harsh realities and tough challenges. The political and economic reality was that, when the new SWFs were set up, world oil prices collapsed along with the prices of many other commodities. The world oil price reached a peak of over US$ 100 per barrel in 2008 but, by early 2016, it had gone down to about US$ 27 per barrel. The world iron ore price exhibits the same trend, with the 2016 price a mere third of that in 2008. Converting a temporary stream of resource revenue into a permanent stream of investment income takes time. For instance, Pula Fund in Botswana was established in 1994, and it took over two decades for its managed assets to reach about 40% of the country's GDP.

New SWFs were unable to help governments balance the budget in commodity-dependent countries. For instance, Mongolia has a huge

potential in many key commodities, including gold, copper, and coal. It is also highly dependent on commodity exports: in 2011, about 97% of the exports in Mongolia were from commodities, accounting for nearly 40% of the country's GDP. Their heavy dependence on resources does not translate into market power, given the small size of their economy. Yet, it does make them much more vulnerable to big swings of commodity prices and export markets. After an average 8–9% of GDP growth in 2000–08, Mongolia suffered negative GDP growth in 2009. However, the economy bounced back quickly, reaching 18% GDP growth in 2011, thanks to an influx of investment and high global coal and copper prices. Nonetheless, this boom quickly disappeared: growth slowed to 8% in 2014 and 1% in 2016. Government revenue declined, and its expenditures could not be cut to the same extent. Furthermore, official reserves dropped from a relatively healthy 16% of GDP in 2010 to less than 5% in 2016. The IMF subsequently provided Mongolia with a bailout package of US$ 5.5 billion in early 2017 (IMF 2017).

The global collapse of commodity prices forced new and old SWF-holding countries to face conflicting demands on their funds. Domestic budget shortfalls called for divesting some long-term foreign holdings to provide domestic liquidity. Even in Norway, which holds the world's largest SWF—the Pension Fund Global—the government was pressured to draw down its capital to meet fiscal shortfalls. The government is bound by the rule that it cannot draw down more than the fund's expected annual returns (set at 4% a year). It, nonetheless, took more from the fund than it deposited from its oil revenue in the first half of 2016: 'It is very hard to have a huge sum of money at the bedside and to tighten your belt at the same time', commented one observer (Anonymous 2016: 65). Some developing SWF-holding countries facing similar or other pressures were unable to resist the pressure for political reasons, economic reasons, or both. Chad's fund was repurposed in 2005 for military spending at the wish of the government; the Mauritanian government stopped payments to its SWF after 2008 (Chatham House 2014). Many see the governing structure of SWFs as key to ensuring politicians to resist temptation to sacrifice long-term investment gains for short-term interests.

Many resource-rich developing countries face persistent corruption problems that have been sustained by the resource wealth itself (Grigoryan 2016; see also Nem Singh (Chap. 33), this volume). To ensure public funds remain in the public pocket, it is, of course, important to have a capable team managing the funds, but it is even more important to have a transparent governing structure, an independent board of governors, and independent, internationally reputable

auditors to solidify SWFs' legitimacy and ensure funds are not being used to serve the personal interests of the political elite (Clark et al. 2013). The absence of these factors explains the different trajectories of the Nauru Phosphate Royalties Trust (Trust for short) and the Timor-Leste Petroleum Fund in East Timor. In 1968, when the Trust was created in Nauru, the country's reserves were valued at US$ 500,000 per person, making it the richest country per capita in the world. Two-thirds of the revenue was invested in the Trust, which peaked at over US$ 100,000 per person. By 2004, the Trust whittled down to US$ 3000 per person after a succession of ill-advised and poorly governed investments (Hughes 2004). By 2006, the Trust was in receivership. Its board of directors was comprised entirely of senior government officials, and little of its operation and decisions have been made public. However, we do know that politicians tend to have a bias towards investing in illiquid, partisan projects if the probability of being removed from office is high (Le Borgne and Medas 2007; Collier et al. 2010). In contrast, newly independent East Timor created its SWF—Timor-Leste Petroleum Fund—only in 2005. By the end of 2016, the total assets under its management equalled more than 350% of its GDP (PPP), or about six times its GDP in nominal terms. One key contribution to its success was that it had stringent requirements on the members of the board of directors, trustees, auditors, asset managers, and individuals working in the fund. It also requires its advisory committee to include qualified economists and financial experts (Le Borgne and Medas 2007).

'Questions of how to invest the fund, and when and how much to draw on the fund to finance public needs, are inherently political, and they have dominated the political scene' of all SWFs since their inception (Stone and Truman 2016: 6). New, developing country SWFs are no exception to this rule. One repeated question is where these SWFs should invest—in overseas financial markets or in domestic social programmes or infrastructure projects? Often, the debate over these questions highlights an acute dilemma: should funds be saved for tomorrow's children or help today's, for instance, by paying for free or subsidised secondary school education and/or providing jobs. Investing in domestic social programmes and infrastructure projects is favoured by those who argue that poor countries have high demands on investment while suffering from scarce capital. It should be the priority of developing countries to invest in badly needed domestic infrastructure so that economies could grow (Amoako-Tuffour 2016). Others argue that investing in global financial markets could help resource-rich countries manage inflation, real exchange rate appreciation, and contraction of other industrial sectors during the boom time. Furthermore, investing in global financial markets

often relies on third-party independent fund managers and, in so doing, could prevent politicians from misusing funds and making investments for their personal interests.

This remains a controversial issue as, for now, OECD countries continue to absorb about two-thirds of total SWF investments. Of course, despite the shift in assets into SWFs by developing countries, the value of assets managed by SWFs worldwide is still dominated by high-income countries while SWFs in developing countries manage roughly 30% of all assets (World Bank 2014: 3). Concerned about capital going upwards (upstream?) to rich countries, some continue to argue that African countries should not create, or at least not prioritise, creating SWFs as domestic demands for capital remain great (Dixon and Monk 2014; Chatham House 2014). In Ghana, for instance, the government created two well-designed SWFs, the Ghana Petroleum Fund (2011) and the Ghana Infrastructure Investment Fund (2014), but it simultaneously borrowed heavily, raising questions about whether it might have been a better use of oil revenues to repay foreign debt than investing them in overseas financial assets (Wills et al. 2016).

Conclusion

SWFs have always engendered strong and often divisive feelings: as a Trojan horse to undermine the values and practices in democratic regimes, as a saviour of the Western capitalism in 2008–10, or merely as fashion or fad. While SWFs continue to be seen by some as the current incarnation of the tension between competing forms of capitalism, an embodiment of rising nationalism, and as new instruments for global power rebalancing, few have so far provided evidence showing that holding governments use SWFs to pursue political or strategic objectives regardless of SWFs' own financial viability. It thus seems a feeble argument that 'even if a SWF makes all of their investment decisions on the basis of purely economic logic, and with the seemingly benign intent of any other passive institutional investor, their very existence *may be* to fulfil a politically motivated purpose as part of a state's larger grand strategy to enhance their economic power relative to another state or set of states' (italics added, Lenihan 2014: 246). Rather, because of deep-rooted global payment arrangements, diversifying foreign reserves from exporting natural resources or from trade in goods into managed investment funds is a natural development of the globally integrated economy.

When SWFs are acknowledged as investment instruments and a 'new normal', the centre of the debate shifts away from those divisive views to the more concrete issues of their governing frameworks, investment strategies, and performance. Several issues remain important for scholars of IPE: the first is their size. The total amount of assets under their management is substantial and expanding quickly—reaching over US$ 7 trillion at the end of 2016, more than double the total amount managed by hedge funds (about US$ 3 trillion). Among them, a few are 500-pound gorrillas—what they do and where they invest have significant implications for the investment landscape globally and for targeted countries or sectors in particular. For instance, when interest rates were at record low around the world after 2008, many SWFs invested heavily in real estate. The share of total SWF investment in real estate soared from 24% in 2013 to 46% in 2014, pushing property markets through the roof, especially in pathway cities such as New York, Shanghai, Sydney, and Vancouver. The public in these pathway cities might have complained that they were priced out of the markets, but their own SWFs contributed to this development (Xu 2017).

There is nothing inherently noble or sinister about the creation of an SWF, itself merely one of the policy instruments governments can choose to manage the multiple challenges they face daily. Yet, they are more than investment capitals. For example, they can shape the behaviour of other investors. The Government Pension Fund (Global) of Norway has been undoubtedly exporting its values, as when the fund refuses to invest in firms with products deemed unethical, such as tobacco or weapons, or when it divests from firms seen as misusing water and energy, such as heavy polluters, firms involved in deforestation, and from coal companies. These values are not universal: when some parliamentarians in Australia called for its SWF, the Future Fund, to divest from the coal industry, the idea was immediately shot down by the government. Nonetheless, other institutional investors worldwide, such as pension funds or even university funds, followed suit and began divesting from coal companies. Given that there is not one agreed-upon value system, most of these issues are controversial. Whose interests and whose values SWFs try to shape (will shape?) using their large assets remain political questions.

'Given the nature of SWFs, it is essential that they engender public trust, safeguard against potential mismanagement of assets, and are accountable for their performance' (World Bank 2014: 17). In practice, this is more complex. Politically, SWFs are expected to be accountable to the public. Internally, SWFs all face the problems of cascading challenges, as they either

use their own fund managers or contracted third-party ones. The internal accountability issue is closely related to a broad accountability issue, that is, to what extent SWFs are accountable to their ultimate owners, namely, the government and the public. For SWFs, as investment instruments, and transparency seem to be contradictory in terms. As investment instruments, and given their size, they must be discreet. Otherwise, when it becomes known that they are about to invest, prices will rise. Likewise, when they divest, prices go down, thereby working against the very principle of their creation. This is the reason investment decisions of 'all' SWFs are made known only after the fact rather than being scrutinised during the decision-making process. It is often argued that when decisions on investment are being made, SWFs should operate in similar ways to other profit-driven investors and be free from political interference. Generating high returns is in all SWFs' mandate. SWFs' independence is not constitutionally guaranteed, yet it is often protected as a separate unit within the central bank, overseen by the finance ministry, and monitored by the legislature. Operating independently, quarantined from political interference challenges SWF accountability. This is an issue faced by all SWF-holding countries, rich and poor, democratic and non-democratic. It presents a new challenge for IPE scholars too. How can we analyse these state-owned investment funds? When CIC joined the Australian Future Fund, Queensland Investment Corporation, and several others and bought the Melbourne port at a price tag of US$ 7.3 billion, was this a geostrategic and geopolitical investment or simply an economic one? Does ownership matter anymore? And if so, to whom?

Despite collaborative efforts of SWFs to build 'a global constitutional order that is pluralistic rather than hegemonic, one that better accommodates the increasingly diverse world in which we actually live' in negotiating and adopting the GAPP (Calleo 2009), there is no centralised institution for regulating what, where, and how SWFs can invest and to whom they should pay their taxes (see Vlcek (Chap. 22), this volume). In the absence of multilateral rules, SWFs face the complexities of many different investment rules and tax regimes. As long as being sovereign is the nature of these SWFs, the international community will have difficulties in negotiating one set of rules to regulate SWFs' investment objectives, tax morality, and reporting, which are increasingly important as SWFs expand. Ultimately, restructuring and recreating a new international arrangement addressing these issues is a question of politics, not economics.

Appendix

Sovereign Wealth Funds, Assets under Management

Country	Fund name	Inception year	Source of funds	AUM2016 US$ bl
Norway	Government Pension Fund—Global	1990	Commodity (oil & gas)	903.96
UAE-Abu Dhabi	Abu Dhabi Investment Authority	1976	Commodity (oil & gas)	828
China	China Investment Corporation	2007	Trade Surplus	813.76
Kuwait	Kuwait Investment Authority	1953	Commodity (oil & gas)	592
Singapore	Government Investment Corporation	1981	Trade Surplus	353.58
Qatar	Qatar Investment Authority	2005	Commodity (oil & gas)	335
China	National Social Security Fund	2000	Trade Surplus	294.85
UAE-Dubai	Investment Corporation of Dubai	2006	Commodity (oil & gas)	200.82
Saudi Arabia	Public Investment Fund	1971	Commodity (oil & gas)	190
Singapore	Temasek Holdings	1974	Trade Surplus	179.71
UAE-Abu Dhabi	Mubadala Development Company	2002	Commodity (oil & gas)	125
Russia	National Wealth Fund & Reserve Fund	2008	Commodity (oil & gas)	110.85
UAE-Abu Dhabi	Abu Dhabi Investment Council	2007	Commodity (oil & gas)	110
Australia	Australian Future Fund	2006	Non-Commodity	92.51
Republic of Korea	Korea Investment Corporation	2005	Non-Commodity	91.8
Libya	Libyan Investment Authority	2006	Commodity (oil & gas)	66
Kazakhstan	Kazakhstan National Fund	2000	Commodity (oil & gas)	65.7
Brunei	Nbrunei Investment Agency	1983	Commodity (oil & gas)	40
Malaysia	Khazanah Nasional Berhad	1993	Non-Commodity	34.95
UAE	Emirates Investment Authority	2007	Commodity (oil & gas)	34
Azerbaijan	State Oil Fun of Azerbaijan	1999	Commodity (oil & gas)	33.21
New Zealand	New Zealand Superannuation Fund	2001	Non-Commodity	21.74
Ireland	Ireland Strategic Investment Fund	2001	Non-Commodity	21.7
East Timor	Timor-Leste Petroleum Fund	2005	Commodity (oil & gas)	16.9

(*continued*)

(continued)

Country	Fund name	Inception year	Source of funds	AUM2016 US$ bl
UAE-Dubai	Istithmar World	2003	Non-Commodity	11.5
UAE-Dubai	Dubai International Financial Centre	2002	Non-Commodity	11
Bahrain	Mumtalakat Holding Company	2006	Non-Commodity	10.51
Russia	Russian Direct Investment Fund	2011	Non-Commodity	10
Oman	State General Reserve Fund	1980	Commodity (oil & gas)	9.15
Oman	Oman Investment Fund	2006	Commodity (oil & gas)	6
Angola	Fundo Soberano de Angola	2012	Commodity (oil & gas)	4.75
UAE-Ras Al Khaimah	Ras Al Khaimah Investment Authority	2005	Commodity (oil & gas)	1.2
Nigeria	Future Generations Fund	2012	Commodity (oil & gas)	1.07
Morocco	Ithmar Capital	2011	Non-Commodity	1
Vietnam	State Capital Investment Corp.	2005	Non-Commodity	0.87
Palestine	Palestine Investment Fund	2003	Non-Commodity	0.8
Kiribati	Revenue Equalisation Reserve Fund	1956	Commodity (Phosphates)	0.65
Sao Tome & Principe	National Oil Account	2004	Commodity (oil & gas)	0.01
Total				**5624.55**

Source: Universita Bocconi, *Hunting Unicorns: Sovereign Wealth Fund Annual Report 2016*, Baffi Carefin Centre, SIL Sovereign Investment Lab, p.8

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28

Competition Law and Policy as an Emerging IPE Issue

Tim Büthe

Introduction

There is—today—a strikingly broad agreement that competition is critically important for making a market economy work for the greatest possible number of market participants. The Confederation of European Business Associations opens a recent position paper with the statement: 'Competition […] provides the best incentive for efficiency, encourages innovation and guarantees consumers the best choice' (BusinessEurope 2017: 1)—with which the European Consumer Organization entirely concurs: 'Effective competition means that companies have an incentive to invest, innovate, keep up with their rivals and come up with new and better products for consumers' (BEUC 2018).

Market competition, however, does not just occur naturally, just as markets themselves are not a feature of the Hobbesian state of nature (De Roover 1951; Balleisen and Moss 2010; Fligstein 2001). Economic actors have a

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wealth of incentives to amass market power or in other ways avoid or suppress market competition. Competition law and policy are supposed to counteract those incentives and help make or keep markets competitive.

Competition law and policy have traditionally been considered domestic matters—warranting above all legal and economic analysis. In this chapter, I argue that they are an important and exciting emerging issue for *international* and *political* economy. I first clarify what we mean by competition law and policy and why I consider it inherently political. I then identify and briefly discuss three recent developments that make competition law and policy an important emerging issue for understanding international political economy: (1) a changing understanding of the political economy of trade as driving markets towards more oligopolistic structures that may require competition policy as a complement; (2) the rapid, virtually global diffusion of competition law and policy after many decades during which competition law and policy was the near-exclusive reserve of advanced capitalist democracies; and (3) the increasing likelihood of international conflicts from divergent competition law enforcement and corresponding incentives for increased transgovernmental cooperation. For each of these developments, I flag opportunities for research by IPE scholars.

Competition Law and Policy: Inherently Political

Competition *law* prohibits—as well as authorizes and regulates government intervention to prevent or punish:

(i) unilateral anti-competitive conduct, where a single economic actor with market power or a dominant position in a given market (at the extreme a monopoly), uses that market power to extract rents or to avoid market competition by impeding the entry of new competitors into the market or by keeping existing competitors from actually competing;
(ii) anti-competitive agreements between two or more firms that may appear to be competing with each other but in fact conspire or collude to avoid market competition (e.g., in a market-sharing or price-fixing cartel), or other agreements that impede the efficient operation of markets (such as when firms enter into an exclusive distribution agreement when the market can readily sustain multiple distributors); as well as
(iii) mergers, acquisitions, or joint ventures that eliminate or substantially reduce competition or create or strengthen market dominance, such as when, in an already oligopolistic market like the US mobile

phone services market with four significant competitors in recent years, the second largest company acquires the third largest (Brunell 2011), or when, in the German grocery retail industry, a major retail chain buys up all the stores of what in many local markets is its only pertinent competitor (Monopolkommission 2015).

A country's competition *policy* is generally understood to entail not just the decision whether to adopt a competition law (and what provisions the law should entail; see e.g., Dabbah 2010) but also more broadly how to enforce such a law. It also includes what may be seen as 'supporting policies', most importantly competition agency advocacy work. Such advocacy may be directed at the business community or civil society at large to establish or strengthen a normative commitment to market competition (a 'competition culture'). Or it may be directed at the country's own legislative or executive bodies (including other regulatory agencies) to raise awareness of possible anti-competitive effects of laws, regulations, or administrative decisions and to urge them to pursue public policy objectives in ways that are maximally compatible with keeping markets competitive (Cooper et al. 2005; Fels and Ng 2013; Irina 2013).[1]

The Inherently Political Nature of Competition Law and Policy

The study of competition law and policy has long been dominated by legal scholars and, especially in recent decades, economists. Explicitly political analyses have been few and far between, even though the subject is highly political in at least three respects:

First, competition law and policy entails the use of political power (the power of the state) to constrain or even redistribute market power. Even in the realm of advocacy, it entails using state actors' ability to shape discourse to foreground market competition in policymaking or to change the terms of public debate (Kovacic and Shapiro 2000; Wilks 2010). This makes competition law and policy an inherently political and powerful regulatory tool to (re)shape the structure, operation, or distribution of benefits of a market. In fact, even competition advocacy may constrain rent-seeking (Glanz and Büthe 2016).

[1] The European Union and a few other, mostly federal jurisdiction also include subsidies (or 'state aid') regulation in their competition policy (see Büthe 2007; 2015).

Second, market power can not only be used to extract economic rents (see Hveem (Chap. 3), this volume) but can also be used to exert political power. This was illustrated most vividly by political leaders' willingness to exempt 'too big to fail' capitalist enterprises from the operation of market principles. Hobson (1902) and Lenin (1991 (1916)) even attributed the 'scramble' for colonies in the late nineteenth century and the outbreak of World War I (understood as a violent conflict over colonial expansion) to the desperate search for new markets by the domestically ever more monopolistic European industries. Even without subscribing to the Hobson-Lenin account of imperialism and the origins of World War I, we can recognize that economic resources can almost always be used to gain political influence, such that highly concentrated economic power implies political inequity. Any serious attempt to diminish such power or constrain its accumulation thus clearly has political implications, and—as explicitly suggested by ordo-liberals (e.g., Böhm 1961)—some restrictions on market power may be necessary to make and keep a market economy compatible with political democracy.[2]

Third, with few exceptions—such as when an investigation yields direct, 'smoking gun' evidence of a cartel that is considered 'per se' illegal—the implementation of competition law and policy does not entail the mechanistic application of straightforward rules. Instead, the implementation of competition law and policy requires trade-offs based on political priorities and judgments. In assessing a merger of two breweries, for instance, is the relevant market—that is, the market to be considered when estimating the likely effect of the merger on market competition—the market for beer? Or is it the combined market for all alcoholic beverages (wine, beer, etc.)? Or maybe even the market for all beverages, including bottled water, coffee, tea, and juice? Turning to a different example: Should the ride-sharing app and company Uber be analysed as a multi-sided platform or simply as a taxi/transportation service provider? The answers surely should depend upon what consumers treat as substitutes, which, however, may vary depending on attitudes and habits—which in turn are a legitimate and at times contested object of public policy. Similarly, the decision which countervailing pro-competitive effects of, for example, an agreement between firms or a merger might be considered in determining whether the agreement or transaction is anti-competitive is necessarily at least in part a policy decision driven by political preferences.

[2] Ordo-liberalism is a philosophical school of thought—motivated in part by the experience with cartels and trusts in Weimar and Nazi Germany—that rejects government intervention when it seeks to direct economic activity but sees the state as having a necessary 'ordering' function in the economy to safeguard individuals against any concentration of political *and economic* power that would threaten their freedom and equality of opportunity.

From a Domestic to an International/Global Issue

As a highly legalistic regulatory regime, which relies centrally on (the threat of) law enforcement to achieve its goals, competition law has traditionally been understood as a mostly domestic issue, to be analysed within the specific context of each particular jurisdiction. Even truly comparative analyses have until recently been rather rare (Dabbah 2010; Freyer 1992; Gerber 2010; Vedia Jerez 2014; Kovacic and Lopez-Galdos 2016) and, at least until the end of the Cold War, they were mostly limited to the OECD world of advanced capitalist democracies.

Three recent developments, however, render competition law and policy an increasingly important IPE issue.

Competition Law and Policy and the International Integration of Product Markets

Competition law and policy have been closely intertwined with trade policy ever since the initial adoption of modern competition laws in Canada and the United States in 1889 and 1890, respectively (Büthe 2014). The issue is thus not new. Yet, recent theoretical contributions, especially the development of 'new-new trade theory,' offer a novel understanding, suggesting that competition policy may be a necessary complement to international market integration. It increases the importance of asking, under what conditions or to what extent such a regulatory regime, based as it currently is in mostly national legal systems, can work when boundaries of the market extend vastly beyond the border of any one jurisdiction. This question offers rich opportunities for future research.

If global markets allow for a globalization of anti-competitive behaviour, then maybe an inter- or supranational competition regime would be the most suitable way to govern and safeguard market competition. Indeed, a study carried out under the auspices of the League of Nations suggests that cartels were already pervasive in international markets during the interwar years, with large parts of many industries governed by fully international cartels (Lovasy 1947; see also Pauly 2003:esp. 244ff). Concerns about the re-establishment of these cartels after World War II led to the inclusion of provisions for an international competition regime into the text of the treaty for the International Trade Organization (ITO). This regime, however, failed to materialize when the US Congress refused to take up the ITO treaty for ratification. Meanwhile, GATT—its de facto replacement—contained no

competition provisions. The 1957 founding treaty of the EU, by contrast, did (albeit intentionally vague ones, which no one at the time expected to develop into the most powerful supranational competition regime, see Büthe 2007; Cini and McGowan 2009: 11ff; Djelic 1998; Müller-Armack 1964: 401ff). Repeated proposals by the EU to add a chapter or supplemental agreement on competition law and policy to the GATT or to the WTO treaty, however, were not successful, though many PTAs in recent years have included competition chapters, articles, or provisions (Anderson and Evenett 2006; Bradford and Büthe 2015).

The theoretical literature examining these developments (and in part informing the underlying policy debates) has long focused on two competing arguments. One school of thought, grounded in neoclassical economics, views free trade as a substitute for competition policy (e.g., Blackhurst 1991): Opening product markets inherently involves lowering barriers to entry into those markets. Trade economists expect this change to reduce anti-competitive behaviour, because foreign competitors' market entry will directly reduce market power and undercut, for instance, supra-competitive prices or sub-par quality, indirectly making anti-competitive agreements among the domestic competitors unsustainable. Trade openness should thus alleviate the need for a competition law and policy, which would try to address anti-competitive behaviour directly by making it illegal and would be expected to lower barriers to entry indirectly.

The other school of thought views competition policy as an intentional or inadvertent substitute for protectionism. Büthe (2014: 217f) here differentiates two variants: an aggregate economic welfare variant and a domestic political economy variant. The former, with affinities for statist theories in IR and optimal tariff theory, is focused on the incentive of net importing governments (particularly of economically large countries) to oversupply competition enforcement. This oversupply is expected because the potential beneficiaries of enforcement are domestic consumers, whereas foreign producers pay the costs. Net exporting governments, by contrast, are said to have incentives to undersupply competition law, because the costs of more stringent enforcement would be paid by domestic producers for the benefit of foreign consumers (see, e.g., Guzman 1998, 2004). The domestic political economy variant, with affinities to the special interests critique of regulation, focuses on the possibility of selective enforcement of competition law against foreign competitors. Proponents of this model anticipate such selective enforcement because they expect domestic firms, when exposed to foreign competition, to lobby for the protectionist abuse of this regulatory policy instrument. And lobbying for such (ab)use of competition law and policy

might be all the more attractive when it is still available, whereas free trade agreements might render traditional protectionist measure unavailable (see, e.g., Baumol and Ordover 1985).

Büthe (2014: 223f) proposes an alternative approach, which posits competition policy as a genuine complement to just such *institutionalized* free trade. The argument, in a nutshell, starts from the theoretical observation that the international integration of markets provides increased opportunities and incentives for transnational anti-competitive conduct by firms that, prior to the removal of the trade barriers, might not even have recognized each other as competitors. Such transnational collusion should be attractive for all, as long as ex ante differences in competitiveness are sufficiently modest that every firm faces uncertainty about its commercial success in the absence of collusion. Moreover, the institutionalization of free trade (through agreements that render traditional governmental forms of protectionism unavailable) should make this form of *private protectionism* particularly attractive. And if governments are interested in safeguarding market competition (as they usually say they are), this line of reasoning suggests a symbiotic/complementarity relationship, with trade openness, especially when institutionalized, increasing the probability of adoption and implementation of competition law and policy. Büthe and Morgan (2015) find empirical patterns in US antitrust enforcement that are consistent with this account while being incompatible with both alternative approaches.

An additional novel theoretical perspective may be derived from new (and especially 'new-new') trade theory. New trade theory sought to explain the prevalence of 'intra-industry' trade, especially between advanced industrialized countries—trade not explained by Ricardian comparative advantage, differences in factor endowments or in industry-specific specialized technology. Krugman's pioneering work (1979, 1980) did so by relaxing the assumption of constant (or even declining) returns to scale in the traditional trade models. Industry-specific increasing returns to scale and network effects yielded a theoretical account of specialization, where a country would export and import seemingly very similar yet highly differentiated products within the same industry. Such models also implied a deviation from the model of perfect competition (see also Helpman and Krugman 1985). Yet, because it retained an aggregate focus on the country level, the implications for competition policy attracted little attention, especially since the empirical support for new trade theory was generally seen as mixed.

This changed, eventually, with the introduction of 'new-new' trade theory, pioneered by Melitz (beginning with 2003), which relaxed the assumption that all firms from a given country in a given industry are equally productive

(for a recent review, see Ranjan and Raychaudhuri 2016). Trade openness, Melitz's model predicts, will benefit the more productive firms, giving them access to a larger market and thus greater economies of scale, growth, and/or higher profitability, while the increased competition will drive the less productive firms out of business (in all of the countries that make up the now integrated market). The cumulative expected effects over time include markets (for any given product) with a smaller number of the most efficient producers for that product, each of which will tend to be larger than before the integration of the market.

Empirical evidence has started to accumulate to provide strong support for this model. Specifically, internationally integrated industries tend towards international or even global oligopoly, arguably rendering competition policy critically important as a genuine complement to free trade in order to safeguard against losing the gains from trade liberalization to monopolistic production and pricing and the accompanying deadweight loss. Much work remains to be done to derive the model of the trade-competition law and policy linkage, which is merely suggested here, more properly from new-new trade theory, but preliminary, exploratory work suggests that this new approach allows us to predict the empirical pattern(s) predicted by the model by Büthe (2014) as well as the empirical findings by Büthe and Morgan (2015) based on a simpler set of assumptions, grounded in a major trade theory model. Research along these lines promises to yield a rich set of further observable implications, including possible answers to the question of under what conditions a highly legalized competition regulatory regime can work, even when the boundaries of the market increasingly extend beyond the borders of any one jurisdiction.

The Global Diffusion of Competition Law

Canada and the United States were the first two countries to adopt modern, national-level competition laws in 1889 and 1890, respectively, partly in response to populist revulsions against the rapid changes brought by industrialization and the formation of markets of continental scale (see, e.g., John 2012). The ideas driving these laws against monopolies and market-manipulating 'combinations' or 'trusts' have a long lineage throughout the Western world (De Roover 1951) and arguably beyond (see, e.g., Dabbah 2007). Yet, the adoption of modern laws prohibiting (or even just regulating) monopolies and cartels proceeded very slowly: A few countries in Europe and Latin America adopted such laws in the 1920s, most of which were officially or de

facto suspended during the Great Depression. Only after World War II did competition law begin to spread—slowly and almost exclusively to Western, mostly advanced industrialized countries. By 1990, a century after the adoption of the original Canadian and US laws, laws that had at least inter alia the stated purpose of fostering competition and included at least a prohibition of cartels and cartel-like forms of anti-competitive behaviour were on the books in some 30 jurisdictions.[3]

By 2016, barely 25 years later, competition laws meeting the above criteria were on the books in more than 130 jurisdictions, with only parts of sub-Saharan Africa, a handful of countries in Latin America and Asia, and small island nations left without competition laws. This diffusion of competition laws constitutes an exceptionally rapid, truly global spread of a legal norm—which calls for analyses of both its causes and its consequences.

Among the consequences of the global diffusion of competition laws is that the trend towards the increasing geographic scope and concentration of global supply and value chains, identified by Mahrenbach and Shaw ((Chap. 1), this volume) as a key feature of the international political economy at the start of the twenty-first century, now faces separate and often distinct competition regulatory regimes in the countries in those chains. This has immediate effects for international finance: Large merger transactions are now often subject to regulatory review in dozens of jurisdictions—including jurisdictions where the merger involves no assets, but whose markets may be said to be substantially affected (see discussion below). It also affects the vertically integrated production of goods in those transnational supply chains. Countries such as China have been repeatedly accused of using their competition regimes to counter the disproportionate power of non-Chinese (and maybe Chinese?) lead firms and bottlenecks in various value chains involving China, trying to reshape the transnational distribution of gains. Scholars and practitioners alike will ignore at their peril the cross-national variation in competition laws and in the capacity to implement them.

Another consequence of the global diffusion of competition laws is that it allows large-N, cross-national comparative research on the drivers of competition law and policy on the one hand and the consequences on the other.

Comparative Political Economy (CPE) and IPE research on the political and economic consequences of competition *law and policy* has only just begun. Particularly noteworthy are Gutmann and Voigt's (2014) analyses of the effect of the adoption of competition law on economic growth—*conditional on the establishment of a politically independent*

[3] By my count, 35 jurisdictions (34 countries + the EU) had such laws on the books in 1990; and most of them also implemented/enforced them with at least moderate consistency.

competition agency. They find a significant positive effect, which they attribute to increases in domestic investment rather than foreign direct investment or productivity. They also find a decline in corruption after the introduction of competition laws in low-income countries. Büthe and Cheng (2017) find that the introduction of competition laws has led to a sustained increase in innovations (as measured by patent filings), both in advanced industrialized countries and in developing countries. In new research (Cheng and Büthe 2018), they find that these effects are conditional on state capacity and judicial independence. Given that existing theoretical work debates a variety of political-economic consequences of the introduction of competition regimes, this should be a promising area for further CPE research.

Comparative research on the drivers of competition law adoption has a longer history than such research on the consequences though the bulk of research on this topic still consists of single-country studies, complemented by a few comparative case analyses (see, e.g., Nikomborirak 2013; Sokol et al. 2013). The existing large-N studies of competition law adoption (Kronthaler and Stephan 2007; Palim 1998; Parakkal 2011; Parakkal and Bartz-Marvez 2013; Weymouth 2016) have so far mostly focused on the domestic drivers. Across these analyses, only three factors consistently appear statistically significant drivers of competition law and policy. (1) Democracy matters: more democratic countries are more likely to adopt competition laws—a finding Weymouth's sophisticated analyses show to be conditional on the domestic balance of power between incumbents and 'outsiders' in both industry and labour. (2) A country's level of economic development matters: richer countries are more likely to adopt competition law, consistent with claims that sophisticated forms of market regulation are something of a luxury good. And (3) market size matters: Countries with larger markets are more likely to adopt competition laws, probably reflecting a series of particular challenges in competition regulation for small economies (Gal 2003; see also Aydin and Büthe 2016).

None of these analyses, however, model the diffusion process as such, effectively treating the decision whether and (if so) when to adopt a competition law as a decision made by each country independently and without regard to the broader international context. Büthe and Minhas (2015) suggest instead the need to model the diffusion process as such, as diffusion of legal norms needs a conduit for ideas and possibly the exercise of power. Consistent with the argument about institutionalized trade openness sketched above, they find strong support for the argument that preferential trade agreements (PTAs) provide that conduit: Countries without a competition law—but with PTA partners among whom competition laws are common—are much more

likely to adopt a competition law than otherwise identical countries with PTA partners among whom competition laws are rare.

Comparative analyses based on high-quality data for a large sample of countries have only just begun. The rapidly increasing availability of detailed data for a substantial number of countries suggests that this will become a richly promising area of future research for IPE scholars.

Transgovernmental Conflict and Cooperation over Competition Law and Policy: Promise and Limits of Institutionalization

The third reason why competition law and policy are bound to be an increasingly important issue for international political economy is that the global spread of competition law and policy creates a wealth of new 'opportunities' for international and transgovernmental conflict. Fortunately, it also creates additional opportunities for mutually beneficial cooperation.

Notwithstanding widespread agreement on many of the basic principles of competition law and policy (e.g., Gerber 2010; Venia Jerez 2014), competition laws differ across countries, for instance, in how narrowly or extensively 'abuse' of market power is understood or in the extent to which efficiency gains from a merger of two erstwhile competitors can be invoked as mitigating factors when the merger of the two firms in an already oligopolistic market would otherwise be considered anti-competitive (and therefore should be blocked by competition regulators). Moreover, beyond instances of 'per se illegal' behaviour (such as naked cartels, which are in most competition law jurisdictions today strictly illegal), competition law enforcement and competition policy implementation rely on economic analyses of the 'relevant' markets, as briefly introduced above. This reliance on market analyses is important for international conflict and cooperation because the effect of a given merger or other (trans)action on market competition often differs from one national regulator's market to another. The $156 billion merger of chemical conglomerates Dow and DuPont (to mention just one of the largest 2017 mergers; see Gomes-Casseres 2017) might have affected markets for petrochemical and agricultural chemical almost everywhere, but whereas the European Commission was primarily concerned about reduced incentives to innovation for agricultural crop protection (Deisenhofer 2017), the Competition Commission of India (CCI) was, in light of the companies' position in the Indian market, at least equally concerned about the effects on seeds pricing and the companies' large 'materials science' segment (PTI 2017). At the same

time, mergers and acquisitions involving large multinationals tend to fall under the jurisdiction of multiple competition authorities, raising the spectre of divergent and possibly mutually incompatible decisions.

The potential for acrimonious spillover from divergent competition regulatory decisions into international (inter-governmental) relations at the highest levels has been well known at least since the late 1990s, when expected and realized differences in the US and European competition agencies' assessments of the high-profile mergers of Boeing-McDonnell Douglas and GE-Honeywell resulted in very public lobbying and even threats of political retaliation at the highest levels of government (Damro 2001; Fox 2002; Kovacic 2001; Morgan and McGuire 2004; see also, Büthe and Swank 2010). Today, the number of competition law jurisdictions in the world has doubled from what it was then, while economic globalization has continued to the point where the likelihood that business transactions involve multiple jurisdictions is greatly higher, substantially increasing the likelihood of conflicts of laws, jurisdictional conflicts, and consequently political conflict over competition law and policy.

Worse, international conflicts over competition law and policy not only may arise as an accidental by-product of economic integration and interdependence but also consciously or even intentionally as a consequence of governments' or competition agencies' pursuit of their country's economic self-interests. As some political economists had long worried (see, e.g., Auquier and Caves 1979), and as Guzman (1998: esp. 1510–1524) lays out particularly clearly, the incentive to provide an optimal level of competition law enforcement —which constrains producers' supra-competitive rents for the benefit of consumers—depends upon the distribution of producers and consumers, creating a political incentive to under-enforce where a country is a net exporter and (at least for economically large countries) to over-enforce where a country is a net importer. As a powerful policy instrument vis-à-vis economic actors, competition law might even be selectively enforced against foreign competitors of inefficient domestic firms, raising the possibility of the protectionist abuse noted above (see also Schinkel and Tuinstra 2006). All of these possible (ab)uses of competition law and policy increase the likelihood of conflict in the international political economy—though straightforward protectionist abuses appear not to be as widespread as some previous work had claimed (see Büthe and Morgan 2015).

While it increases the probability of conflict, the global spread of competition law and policy also creates incentives to boost transgovernmental cooperation—not just to avoid destructive conflicts but also, for instance, because the effectiveness of competition law enforcement depends upon it when

evidence is spread across several jurisdictions (a practice in which sophisticated transnational cartels have been shown to engage quite consciously) and because multi-market analyses are much easier to conduct with the assistance of agencies in the other national markets. Here it is noteworthy that many countries' governments and/or competition regulators have institutionalized their working relationship in trade agreements (by including competition law and policy provisions, see Bradford and Büthe 2015) and in dedicated agreements about competition law and policy, most of them bilateral between two countries' regulatory agencies; see Büthe and Cho with Becker et al. (2017) for a description of new data allowing much new research on questions of international conflict and cooperation between the regulatory agencies.

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29

Reviewing the Costs and Benefits of Mano Dura Versus Crime Prevention in the Americas

Robert Muggah

'Tough on crime' approaches to public security have widespread popular appeal. Because they sound action oriented and morally just, authoritarian and populist leaders routinely resort to such tactics. Referred to as 'mano dura' (iron fist) in Latin America, presidents, governors, and mayors across the left and right are often prepared to suspend the rights and freedoms of their citizens in the name of 'public order'. In fact, citizens frequently welcome heavy-handed policing, tough sentencing, and mass incarceration so long as it is intended to stem the region's above-average crime rates. Latin Americans have good reason to be uneasy: the region registers the world's highest murder and victimization rates.

A principle focus of mano dura approaches is on penalizing young people, especially male youth. Specifically, adolescent and young adult males are cast as the principle villains when it comes to criminal violence across Latin America. While young males are often perpetrators of violence, they are also overwhelmingly the main victims of crime. Between 2003 and 2014, an astonishing 90% of all documented homicides in Latin America consisted of

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young males aged 15–29. Yet instead of being treated as victims, much less possible agents in preventing and reducing violence and constructing more peaceful societies, young men are instead constructed as a 'threat' to be contained and detained.

Notwithstanding their immense popularity, mano dura interventions are seldom effective. Even by their own measures of success, mano dura measures—including the expansion of police powers to arrest people for minor offences, reduction in procedural rights for suspects, and deployment of soldiers and paramilitaries to restore domestic security—often fail to reduce violent crime rates, lower impunity, deter future crime, or prevent re-offending. While they provide evidence of decisive action by politicians and police chiefs, they are also economically inefficient. They also have unintended consequences, including the stigmatization and rights violations of young people—especially poorer black and minority males.

An oft-overlooked question for proponents of mano dura-style approaches, indeed for all public security measures, relates to their intended outcomes. What are the desired metrics of success of a given strategy to prevent and reduce crime? In theory, the answer should be straightforward: reduce violent and non-violent crime and restore the public perception of safety and security. In practice, the answer may have less to do with the guarantee of public well-being and more to do with reducing threats to a given regime and ensuring the semblance of public order to maintain regime legitimacy. These distinctions in expected outcomes dramatically impact how one evaluates the success or failure of mano dura more generally.

This preliminary assessment reviews the characteristics of mano dura-style measures in a selection of North and Latin American cases. Mano dura encompasses a host of legal and extra-legal measures focused on repressing, punishing, and deterring crime. Where possible, the study assesses the costs and benefits associated with punitive measures, including in relation to human and material factors. In this study, a broad range of dependent variables are considered—including changes in homicide and victimization on the one side and dollars spent and saved on the other. The assessment consists of a review of the literature rather than the administration of new cost-benefit analysis per se.

The focus of this chapter is on the intended and unintended consequences of mano dura in Latin America and the opportunities for alternative approaches to preventing and reducing violent crime. The assessment draws on available evidence that, albeit patchy, offers a state-of-the-art overview of the real costs and benefits of repressive approaches to public security and criminal justice provision. A parallel goal is to highlight the

virtues of preventive approaches to promoting safety and security in neighbourhoods, communities, cities, and countries across the region. Section 'Definitions' considers the definition of mano dura. Section 'Assessing the Costs and Benefits of Prevention' then examines discrete categories of mano dura intervention. Section 'The Challenges of Measuring the Cost-Benefits of Mano Dura' examines the costs and benefits of prevention, underlining the cost and benefits for every dollar invested. The conclusion highlights a number of key findings and insights.

Definitions

Many Latin American countries emerged from decades of civil war and authoritarian rule between the 1960s and 1980s with their military and paramilitary institutions left intact. During these wars and dictatorships, state institutions relied on their armed forces to undertake discretionary arrests, overrule procedural rights, and patrol streets to maintain law and order. Legislative changes were introduced to allow the criminalization of misdemeanours, and courts routinely accepted extrajudicial confessions, the detention of suspects without charges, and indiscretions during periods of 'emergencies'. Inmates frequently languished for years without access to special counsel. The overriding objective was defence of the regime and state institutions over the protection of people and their civil rights.

The continuation of mano dura-style policies and practices since the 1980s can be traced to a number of factors. For one, historically high crime rates have ensured that 'law and order' responses remain high on the political agenda. Hard-line and ideologically conservative politicians, backed by media, religious, and business representatives, are adamant to ensure that it stays there. There are legitimate concerns with violence in Latin America—not least the persistent homicide rates across the region (Garland 2008). Not surprisingly, elected officials routinely increase incarcerations in response to citizen fears of crime. Recent surveys show that public preoccupation with rising crime and victimization are associated with increasing support for authoritarian government (LAPOP 2017), due to process restrictions, expanded police discretion, and vigilante justice (Muggah and Winter 2017).

Another impetus for mano dura is the persistent appeal of certain criminological and sociological theories that justify its imposition. For example, 'zero tolerance' policies applying the so-called broken windows approach to crime prevention in North America are especially seductive and have spread throughout Latin America. Political leaders and police authorities routinely cite such

approaches—and particularly the New York experience of the 1990s—as a justification for ratcheting up certain mano dura measures. Yet, unlike the experience of North America, Latin American efforts to introduce zero tolerance exert few formal checks and balances. Furthermore, zero tolerance was often applied in situations where criminal justice institutions were weak with poorly trained police and ineffective judicial and penal systems.

Mano dura policies and practices refer colloquially to the application of repression to address public order concerns. It is typically shorthand for hardline authoritarian and populist approaches to law and order and the excessive use of military and police force to address common crime. Practically speaking, mano dura policies can be distilled to three sets of measures. It is their combination, and not necessarily just one on its own, that demarcates mano dura from strict zero tolerance-style approaches to criminal justice (Table 29.1).

First, there is the amplification of police discretion to arrest suspects on subjective evidence and to impose criminal sentences for minor offences. As a result, police are granted licence to sweep poor and marginal neighbourhoods. They can search, seize, and arrest people for civil misdemeanours including loitering, public nuisance, vagrancy, or, more ambiguously, 'no licit purposes' or 'lacking an identity document'. Since the object of many mano dura approaches are 'gangs'—from sophisticated maras to street-corner cliques—the result is typically rapid and targeted incarceration of young people.

Across Central America, mano dura-style legislation is common (Muggah and Garzon 2017). In some cases, it is connected to the wider

Table 29.1 The core characteristics of mano dura approaches

	Law enforcement	Courts	Penal
Cracking down on low-level offenders and offences	Aggressive operations Arrests for minor offences Continual harassment	Changing laws to criminalize minor offences and some behaviours Mandatory sentencing laws	Preventive detention Imprisonment of any suspicious-looking youngster
Reduction and suspension of procedural rights	Unauthorized searches Forced confessions Increase of discretionary faculties	Extrajudicial confessions Pre-trial detention Lowered evidentiary standards	Reducing criminal age of responsibility Segregating gang leaders Torture
Deployment of military and forceful policing	Deployment of military Use of paramilitary Massive police crackdowns Tolerance of vigilantism	Emergency laws suspending civil liberties and expanding military and police powers	Use of military prisons Use of severe punishments

'counter-terrorism' and 'war on terror' discourse made popular since 9/11. In October 2016, for example, El Salvador initiated the Special Law Against Acts of Terrorism and ten years later, after abandoning a truce with gangs, public authorities passed new anti-gang measures that classified gangs as 'terrorist' organizations. Meanwhile, in 2015, Honduras strengthened its legislation to combat gang activity by enacting stricter prison sentencing guidelines and new legislative tools for prosecuting gang members, increasing prison terms for recruits for up to 30 years. And in May 2017, Guatemalan legislators proposed a new bill with similar features to those in El Salvador and Honduras. It criminalizes the country's gangs by increasing fines and prison sentences for suspected members.

The excessive use of force by police is systemic and corrosive. According to the Americas Barometer, a victimization survey, there is considerable variation in reported police abuse: Argentina, El Salvador, Bolivia, and Colombia report the highest levels of police abuse (Cruz 2009). Recent evidence shows that there is a positive relationship between a country's murder rate and the overall share of killings committed by the police. Although the proponents of mano dura policing argue that these high ratios might be the result of Latin American police officers facing frequent dangerous encounters, recent data have contradicted this thesis by showing that the ratio of people killed by police to police officers killed by suspects in such places is higher than 10:1, implying the serious misuse of force (Osse and Cano 2017).

Second, there is a reduction in the procedural rights that are guaranteed to suspects, including minors. They may include a combination of pre-trial detention, extrajudicial confessions, the rolling back of protections for young people (under 18), increased prevalence of unauthorized searches, and lowered evidentiary standards. They move beyond so-called zero tolerance strategies that target low-level crimes, since there are few safeguards for limiting police abuse and procedural guarantees for detainees. Another routine tactic associated with mano dura is lowering the criminal age of responsibility.

Mano dura approaches frequently override the basic rights of offender groups, especially young low-income minorities. Aggressive policing is common, including stop and searches, as are forceful targeted interventions focusing on 'at-risk' youth. There are often controversial efforts undertaken to adapt criminal and penal codes to reduce the age of criminal responsibility. Similarly, new laws may be introduced to ensure more severe sentencing for adults and juveniles alike. There are also frequent efforts to segregate and contain prisoners once they are in jails, often with highly unsatisfactory results.

Another common feature of mano dura is the lengthening of prison sentences for inmates for both violent and non-violent offences, especially

drug-related charges. The logic is that stiff sentencing and robust detention will deter future perpetration of crime. There is, however, comparatively limited evidence that such measures are effective as a deterrent. Nor does it appear that longer and more severe prison terms contribute to reducing recidivism and re-offending. To the contrary, stronger penalties may reverse, and even strengthen, the power of organized crime, including prison gangs with youth membership. Prisons have provided ideal locations for young gang members to get to know fellow prisoners from Colombia, Brazil, and Mexico to Guatemala, El Salvador, and Honduras.

Most countries across the Americas suffer from mass incarceration policies and prison overcrowding. The rapid increase of inmates is due to stricter penalties and longer sentences rather than increased apprehensions. Punitive strategies overwhelmingly affect the poor, and most inmates are charged with minor offences. Excessive incarceration also has deleterious knock-on social and economic effects outside the prison gates, including increasing poverty (DeFina and Hannon 2013) and disrupting a neighbourhood's informal mechanisms of social control and social support by, for instance, breaking-up families, reducing the purchasing power of neighbourhoods, increasing reliance on government support programmes, and heightening barriers to legitimate labour opportunities, development, and financial well-being that might otherwise have been the case.[1]

Third, there is a wide application of militarized police and the armed forces to guarantee internal security. The involvement of soldiers in domestic security reverses decades of efforts to ensure civilian oversight and investment in civic police forces. Most constitutions allow the deployment of military during 'national crises' as a temporary measure for exceptional circumstances. Mano dura interventions mobilize a more permanent use of military assets to control organized crime, and predominantly gangs, under the rubric of 'peace' and 'order'. In many countries, institutional reforms have not contributed to meaningful institutional change: police corporations are frequently sceptical and resist change (Frühling 2003). As a result, regressive organizational cultures persist, many of them committed to heavy-handed repressive approaches to policing.

Military and paramilitary responses to domestic crime challenges can undermine democratic legitimacy and basic norms of human rights and pro-

[1] There is a two-way causality between poverty and incarceration rates that implies a type of positive feedback loop, where rising incarceration rates create conditions that beget even higher rates of imprisonment. See Haney (2006).

cedural justice (see also Knight and Elmi (Chap. 30), this volume). Their use virtually always results in the excessive use of force since militaries are organized according to vertical and inflexible command structures and strategies designed to eliminate the enemy. By contrast, law enforcement agencies are expected to minimize the use of violent force and establish a tighter relationship with communities (Dammert and Bailey 2007).

There are many examples of the use of military and paramilitary assets to address regional and domestic crime challenges. Their impacts on stabilizing crime-affected areas and deterring specific perpetrators of crime are mixed. On the one hand, there are occasions where the use of soldiers to 'pacify', 'occupy', and 'contain' can have an anaesthetic effect, albeit temporary. On the other hand, the record shows that such strategies—alongside 'counter-narcotics' and 'counter-insurgency' measures—also result in widespread and routine violations of human rights, including lethal violence, disappearances, torture, and more.

Since it necessarily upsets criminal structures, the deployment of military and paramilitary assets for domestic law and order virtually always increases overall violent mortality. In Mexico, military interventions since 2006 resulted in year-on-year increases in the average homicide rate in selected municipalities. While the overall long-term tendency was increasing homicides, the estimated effects of the deployment of armed forces varied considerably across the 18 treated areas (Espinoza and Rubin 2015). Meanwhile, in Brazil, there is evidence that military measures and the deployment of military police and soldiers can also contribute to disproportionate violence against citizens (Ahnen 2007). These effects are more pronounced in states led by right-leaning officials.

Assessing the Costs and Benefits of Prevention

There is a growing literature on the costs and benefits of prevention programmes to reduce violence, incarceration, and improve inmate rehabilitation: costs and benefits of early childhood, improve family integration, support at-risk youth, and reduce recidivism are relatively common. The relative abundance of studies in the prevention field are in contrast to the relative dearth of cost and benefit analysis to measure the effects of mano dura-style interventions. This is because the public health and criminology sectors place a premium on data-driven and evidence-based strategies and are constantly measuring value for money.

The Challenges of Measuring the Cost-Benefits of Mano Dura

Determining the costs and benefits of mano dura requires determining the expected outcomes and impacts. The reality is that the overall aims of mano dura are not always clearly stated beyond vague slogans such as 'waging a war on organized crime'. To put in the dry technical language of public policy, there is no clearly established theory of change. As a result, its impacts frequently require being imputed. It can be assumed, then, that one goal of mano dura is to deter crime—which can be measured as objective and subjective levels of public safety. Another objective of mano dura is to dismantle organized crime, including the groups that sustain it. The discrete benchmarks of success set by supporters of mano dura are more often associated with process metrics—arrests, interdictions, gun and drug busts, and gang members incarcerated.

Without clearly stated goals, outputs, outcomes, and impact measures, it is difficult to determine a precise cost-benefit of mano dura in general. That said, it is conceivable that cost-benefit analysis could be undertaken of discrete facets of repressive approaches—including in relation to incarceration and military deployment. There are, of course, risks associated with cost-benefit assessments. Indeed, one must be careful not to assume that small-scale measures can be easily scaled, there are risks of what researchers call 'scale degradation'. Likewise, one must be wary of not simplifying findings and rendering conclusions that are widely generalizable (Zedlewski 2009). There are also limitations when it comes to measuring intangible costs including pain and suffering (Dossetor 2011).

There are comparatively few systematic assessments of mano dura-style measures. Cost-benefit analyses of law and order efforts typically focus on US and European prisons. Studies typically find that the cost of building and maintaining prisons vastly exceeds their benefits to prisoners and society as a whole. Prison expenditures are frequently accounted in terms of the direct costs—to house and feed a prisoner—as well as some indirect costs—lost productivity. Yet, the indirect costs can be far reaching, including rehabilitative and social services; child welfare and educational support; and associated pain and suffering to families and communities. It is often difficult for cost-benefit analysis to account for intangible costs such as the impacts of incarceration on parental bonds, self-esteem, and long-term reintegration.

A 2011 assessment examined the total costs taxpayers incurred for prisons in 40 US states. It examined direct expenditures of correction departments as

Table 29.2 Prevention strategies to prevent crime

Prevention strategies	Intervention	Examples
Early childhood and family-based measures	Nurse-family partnerships, functional family therapy	Elmira program (US) Perry Preschool Program (US) Chicago Child–Parent Center (US)
Youth-based interventions	Cognitive behavioural therapy, classroom-based management practices, after-school and structured leisure-time activities	LA's BEST program (USA) The Abrindo Espaços (Open Schools) Program (Brazil) Aulas en Paz program (Colombia) Becoming a Man (US)
Community-based interventions	Focused deterrence (with law enforcement), community mediation	Cure Violence (US, Central America) Cincinnati Initiative to Reduce Violence (CIRV) (US). Group Violence Reduction Strategy (GVRS) (US) Peace Management Initiative (Jamaica) Fica Vivo (Brazil)
Recidivism reduction	Mentoring and entrepreneurship programs, harm reduction/drug rehab related programmes	Mendota Juvenile Treatment Center (USA) Drug Treatment Alternative to Prison (USA) Juvenile Breaking the Cycle (USA) Protection and Assistance of the Condemned (APACs) (Brazil)

well as prisons costs paid by other agencies, such as employee benefits and taxes (US$ 613 million), states' contribution to pensions on behalf of the corrections department (US$ 598 million), health and hospital care for inmate population (US$ 335 million), officer health insurance (US$ 613 million), training programmes, retiree health benefits, and social security (Vera 2011). The assessment estimated that the total price tag for taxpayers related only to prison's expenditures was US$ 38.8 billion, US$ 5.4 billion more than the US$ 33.4 billion reflected in correctional budgets (Table 29.2).

There are also some superficial analyses of the hidden costs of military-style interventions to address organized crime. For example, the Brazilian government has routinely deployed military forces to 'pacify' crime-affected areas of the country. In Rio de Janeiro, for example, the military was deployed no fewer than 12 times since the early 1990s. The costs of these investments are high. For example, a single deployment for four months in 2014 to 'contain' a favela (Maré) was priced at roughly BRL 400 million (roughly US$ 180 mil-

lion at the time). The overall outcomes of the intervention are difficult to assess, though it is widely accepted that overall violent crime rates actually increased in and around areas of intervention immediately following the military's departure.

Early Childhood and Family-Based Measures

There is a broad literature on the costs and benefits of early childhood intervention in preventing violence. It is important to stress that the gains may not be immediately visible. For example, prenatal and early infancy measures are widely associated with strong reductions in violence in the long term, often over the course of 10–20 years. Evaluations of multi-component early childhood interventions show reductions of on average 13% in subsequent youth violence and arrests for violent crimes (Farrington and Welsh 2003). The associated cost-benefit ratios depend on the length of follow-up and range from US$ 6 returned for every US$ 1 invested (6:1) to US$12 returned (12:1) (Barnett and Masse 2007; Nores et al. 2005).

Other common early childhood strategies include nurse-family partnerships (NFP) (Drake et al. 2009). Such programmes are intended to provide direct support from the public health sector to at-risk families. They tend to focus on a group of prenatal and infancy-related risks that increase the possibility of a person to adopt anti-social behaviour, depression, and substance use (Clark and Cornelius 2004). Where NFPs mitigate risks such as infant maltreatment, negligence, and poor parenting and strengthening protective factors (Hill et al. 2007) and deliberately improve home environments that result in more conducive conditions to the children's emotional and cognitive development (Olds 2007), there are clear declines in violent behaviour later in life. Considering fewer tangible savings (such as potential gains in work, wages, and quality of life), along with resource cost savings (out-of-pocket payments including savings on medical care, child welfare, special education, and criminal justice), NFP's total benefits to society equal US$ 60,428 per family served. This yields a 6:4 benefit to cost ratio for every dollar invested in NFP (Miller 2015).

Another cluster of interventions are functional family therapy (FTT) strategies. FTTs typically involve a trained therapist working directly with juveniles in the justice system and their families over a designated period of time. Studies suggest where applied with fidelity, FTTs can contribute to reductions in recidivism by more than 18% across a 13-year cycle. The costs of the programme are on average US$ 2380 per intervention resulting in saving as

much as US$ 52,156 of life-cycle benefits (Drake et al. 2009). A similar programme is called Family Integrated Transitions, tested in Washington state, which projected a cost-benefit of US$ 3.15 per US$ 1 invested in avoided criminal justice and indirect victim costs (Aos et al. 2004). A similar case is the Perry Preschool Program (1962–1967) that is credited with a cost-benefit ratio of US$ 7.16 to US$ 1 (Osher et al. 2003).

Youth-Based Interventions

There are ample examples of evidence-based programmes that are intended to support at-risk youth before, during, and after they enter the criminal justice system. A short list includes multisystemic therapy, substance abuse measures, family-centred prevention intervention, aggression replacement training, juvenile life-skills training programmes, big brother and sisters mentoring programmes, interventions targeting street-connected youth, behavioural couple therapy for substance abuse, cognitive behavioural therapy for adolescents, adolescent community reinforcement approaches, universal classroom management practices, and targeted truancy interventions.

There is considerable research assessing the positive outcomes of youth-based interventions in reducing violence. For example, a meta-review summarizes the findings of 361 scientific studies examining young people aged 12–21 who received a specific intervention designed to reduce re-offending. The review found that the most effective types of programmes were cognitive behavioural therapy measures (yielding on average a 26% decrease in re-offending) and behavioural programmes such as behaviour management, contingency contracting, and token economies (generating on average a 22% decrease in re-offending). The cost-benefit ratio of cognitive behavioural therapy for juveniles in the US is 1.96: 1 (Robertson et al. 2001).

After-school and other structured leisure-time activities are implemented in a group setting or as one-to-one tutoring—the latter with a focus on academic skills development. The aim of these programmes is to reduce risk factors for youth violence, providing children with supervision during critical times of the day, increasing attachment to school, and providing skills needed to avoid violent behaviours (WHO 2015). A good example is the BEST program in Los Angeles that reveals how students who participated in the programme are 30% less likely to commit juvenile crime. The estimated cost-benefit ratio of the intervention is 2.50:1 (Goldschmidt et al. 2007).

Meanwhile, in Brazil, the Ministry of Education and United Nations Educational, Scientific and Cultural Organization (UNESCO) launched the

Abrindo Espaços (Open Schools) Programme in 2004. The average monthly student cost was US$ 12 to US$ 24 per student per year. Evaluations revealed that levels of violence registered in schools and their surroundings were lower for schools taking part in the programme than those that did not. In São Paulo, the Open Schools Program was implemented in 5,306 schools between 2003 and 2006 and criminal acts were reduced by 46% (UNESCO 2008). The programme reveals positive achievements in terms of reducing violence in two states, Rio de Janeiro and Pernambuco, including school fights, students' bad behaviour, vandalism, and personal humiliation (Morales 2007).

In Colombia, Aulas en Paz (Classes for Peace) is a school-based programme oriented towards the development of emotional, cognitive, and communicational capabilities. The programme mixes more traditional teaching methods with life-skills training to encourage children and youth to make a constructive contribution to their communities and society at large. These skills prepare students to confront challenging situations that are routinely experienced in daily life, including conflict and aggression (Nieto et al. 2007). Experimental research suggests the programme works: participants exhibit less aggressive behaviours than the control groups, along with more pro-social behaviour, as reported by both teachers and students (Chaux 2012).

Community-Based Interventions

There are a wide range of interventions designed to reduce crime and violence through community- and neighbourhood-based programming. These strategies seek to adopt comprehensive approaches tackling a range of risk factors while promoting protective factors. They also involve leaders with a degree of legitimacy, strategies to build cohesion and efficacy, and tactics to involve a wide range of stakeholders. In some cases, such measures may involve law enforcement, while in others they may not. There is also a growing evidence base of what works, and what does not, when it comes to such measures (Abt and Winship 2016).[2]

Successful examples of community-based measures are common in the US. For example, CureViolence was launched in 2000 to reduce violence in metropolitan Chicago. It deploys specially trained mediators selected from heavily crime-affected communities to identify and prevent violent events (and violent behaviours) from escalating. The CureViolence approach has spread to 50 communities in 9 countries and has been evaluated indepen-

[2] See also https://crimesolutions.gov.

dently on multiple occasions. Each evaluation shows statistically significant reductions in armed violence. In Loíza (Puerto Rico), there was a 50% reduction in the murders associated with the first year of programme implementation. In Ciudad Juarez (Mexico), after the programme was implemented, the homicide rate fell 24.3%, and in 2013, the programme was initiated in parts of San Pedro Sula in Honduras resulting in an average of reductions in shootings of 88% in 2014 and 94% in 2015 (see Ransford et al. 2017).[3]

By way of comparison, the Peace Management Initiative, was launched in Jamaica's capital, Kingston, in 2005 and is credited with reducing homicide in selected areas by over 90%. The programme involves 'peace walks' with young people and their families, the formation of peace councils made up of community members, recreational events, income generating activities for at-risk youth, and specific retreats. It also opens crime-affected neighbourhoods to a wide range of public and private investment and social welfare services. A cost-benefit of the assessment determined that roughly US$ 12 is saved for every US$ 1 invested if measured by a combination of direct healthcare costs and indirect productivity losses.

And in Brazil's Minas Gerais state, the Fica Vivo program combined both police enforcement and social preventive activities. Preventive activities focused on social support for at-risk families and young people, together with specific education opportunities (designed to promote school retention and after-school support) (Muggah et al. 2016). Meanwhile, repressive actions involved more rapid police action and judicial engagement, increasing the probability of arrest and punishment of violent offenders. A cost-effectiveness ratio includes an estimate of the value of homicides prevented by the programme. According to the model, the cost-effectiveness ratio regarding homicide avoided by Fica Vivo varies between approximately US$ 93,000 and US$ 112,000. The rate of return of the programme is favourable across virtually all parameters, varying from a small tax return of 4% to a large tax return of 840%. These results suggest that the Fica Vivo presents a favourable cost-benefit ratio (Peixoto et al. 2007).

Prison-Based Measures

If the goal is to prevent and reduce violence, then a key strategy must be to avoid prisons altogether. Whether a state pursues pre-trial detention or sen-

[3] One area or the city where the programme was implemented reported 17 months without a single shooting.

tencing in open, semi-open, or closed penal systems, the deprivation of liberty should always be treated as a last resort. The diversion of children must be a priority, including through alternative procedures and programmes, probation, mediation, counselling, community services, or otherwise. Greater efforts must be devoted to divert non-violent offenders from the penal system, especially given their overcrowded and highly violent character in countries such as Brazil, Mexico, and the US.

Where incarceration is selected, there are many strategies to reduce associated harms for detainees. A widely applied approach involves rehabilitation programmes—including re-entry initiatives. The primary goal is to rehabilitate offenders so they can return to society as productive contributors. In-prison rehabilitation is a common approach adopted across North America and Western Europe, with mixed results. A variety of models have been pursued in other parts of the world, including Canada, Israel, Norway, and the US. There are also multiple forms of outside prison approaches—many of which focus on job placement, educational opportunities, cognitive development, behaviour skills enhancement, and mentorship.

A positive example is the Prison Entrepreneurship Program, which connects released offenders with executives and entrepreneurs.[4] The programme is credited with processing over 1,300 graduates with high-earning wages and retention for more than a year after release.[5] Likewise, the Mendota Juvenile Treatment Center (MJTC) in Wisconsin provides intensive treatment programmes for young males involved in violent crime. The benefits per MJTC-treated youth included US$ 8,176 in avoided criminal justice processing costs plus US$ 42,214 in avoided prison costs. The total savings amounted to US$ 50,390 per MJTC-treated youth over the 4–5-year follow-up period. Dividing total benefits by total costs yields a cost-benefit ratio of 7.18:1. Similar savings were recorded with the Drug Treatment Alternative to Prison program in Maryland (US$ 2.45 saved for every US$ 1 spent) and the Juvenile Breaking the Cycle program in Oregon where participating youth were 2.36 times less likely to be re-arrested and 3.78 times more likely to be receiving substance abuse support compared to non-participants (McVay et al. 2004).

There are also growing numbers of recidivism reduction efforts in Latin America. In Brazil, for example, the Associations for the Protection and

[4] For a complete review of effective recidivism initiatives in the US, consult: https://www.crimesolutions.gov/TopicDetails.aspx?ID=35/.

[5] See the Prison Entrepreneurship Program at http://www.pep.org/.

Assistance of the Condemned (APACs) have reduced re-offending from roughly 60% to 10% among their caseloads.[6] The APACs are non-profit institutions financed through private donations and staffed by unpaid volunteers. There are roughly 41 APACS around the world with a capacity of 2,750 people. These programmes emphasize rigid discipline but also trust: rehabilitees hold the keys to their own cells. The costs of APACS are one-third of the cost for regular inmates.[7] Meanwhile, other countries such as Chile have experimented with social reintegration for convicts, with some pilot projects demonstrating a 32% drop in recidivism.

Conclusions

If mano dura-style approaches are to be confronted and reversed, then there needs to be a careful reconsideration of the framing of young people across Latin America (Jutersonke et al. 2009). The stereotype of young, increasingly violent men in big cities advanced by media and politicians is hugely damaging. Indeed, the factors shaping the panorama of violence across Latin America are wide ranging. The World Bank, for example, attributes it to 'a complex set of factors, including rapid urbanization, persistent poverty and inequality, social exclusion, political violence, organized crime, post-conflict cultures, the emergence of illegal drug use and trafficking and authoritarian family structures'.

What also must be acknowledged are the fundamental limitations and negative outcomes of punitive mano dura strategies. While they can reduce certain forms of crime in the short term, they frequently generate massive harm in the long run. Often 'success' is measured as a function of process indicators—arrests, greater seizures of drugs and firearms, and the increasing numbers of people incarcerated. While these metrics are commonly advanced by politicians and law enforcement as a sign of crime reduction, they are also potentially misrepresentative. More relevant indicators of successful crime reduction relate to levels of violent crime, the prevalence of victimization, the extent of impunity, and perceptions of safety and security.

What is more, mano dura measures do not appear to be cost-effective. Contrary to what some of its supporters may claim, they are not associated

[6] See the Portal Âmbito Jurídico at http://www.ambitojuridico.com.br/site/index.php?n_link=revista_artigos_leitura&artigo_id=9296/.

[7] See the European Union External Action at https://eeas.europa.eu/headquarters/headquartershomepage_en/7857/A%20new%20chance%20for%20prisoners%20in%20Brazil/.

with a deterrence of future crime among would-be offenders or the prevention of inmate re-offending. Instead, mano dura-style interventions routinely generate unintended consequences, including the use of excessive force, the stigmatization and rights violations of young people, the erosion of the procedural rights guaranteed to suspects, and the undermining of democratic legitimacy and basic norms of human rights and procedural justice.

Notwithstanding their popularity, there are no scientific assessments of mano dura measures in Latin America. Most cost-benefit analyses of 'law and order' and 'zero tolerance' efforts emerge from US and Western European settings. They typically emphasize metrics such as the 'hit rates' of stops, searches, arrests, drugs, and arms seizures. There is limited evidence that such actions serve as a deterrent to would-be criminals. To the contrary, there is evidence suggesting that stronger penalties may have the reverse effect and even strengthen the power of organized crime, including prison gangs. Paradoxically, after a prison sentence, inmates are more likely to commit a crime.

By contrast, the positive outcomes of specific prevention are well documented. While not always immediately visible, there are empirically measured reductions in violence that correlate with prevention. The costs and benefits of preventive strategies—including early childhood and family-based measures, youth-based and community-based interventions, and recidivism reduction—are widely studied. Cost-benefit ratios depend on the types of interventions pursued and the length of follow-up and range from a return of US$ 3:1 to US$ 12:1. It is essential that the evidence of what works (and what does not) is better communicated to public policymakers, business leaders, and civil society actors alike.

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30

Combatting Piracy in the Horn of Africa Waters

W. Andy Knight and Afyare A. Elmi

Introduction

Over centuries, pirates have plundered, hijacked, and apprehended ships both in international waters and in territorial seas of some states. Maritime piracy is therefore not a new phenomenon. However, since 1995 we witnessed a resurgence in this activity, with a significant spike between 2005 and 2012 in the Horn of Africa waters (the Arabian Sea, the Indian Ocean, the Gulf of Aden, and the Red Sea) (Bendall 2010, 178–179). The Horn of Africa waters have been the primary focus of scholars and practitioners observing this phenomenon, although similar incidents have been recorded in other waterways (Knight 2016). Somali pirates have attacked over 1100 ships and hijacked at least 300 of them since 1995 in those waters. Piracy in the Horn has cost the global economy significant sums of money (Kermeliotis 2013).

The exponential increase in maritime piracy brought home to states and private sector companies (national and transnational) the pressing need to counter this problem by strengthening international maritime processes and laws (see Froese (Chap. 4), this volume, on international law and IPE). Indeed, in 2008,

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the United Nations Security Council (UNSC), whose primary mandate is to maintain international peace and security, invoked Chapter VII of the UN Charter in an attempt to stem the tide of maritime piracy cases occurring off the coast of Somalia. Apart from the UN, the European Union (EU), the North Atlantic Treaty Organization (NATO), the Contact Group on Piracy off the Coast of Somalia (CGPCS), the United States Combined Task Forces (CTF), and current and former British Marines have all chipped in to combat piracy in that region. Other countries have also sent warships to join in these anti-piracy operations (e.g., China, Russia, India, Japan, South Korea, Malaysia, Iran, and Saudi Arabia), a clear indication of the importance of this waterway to the world economy. The international governmental and state response has been laudable. But it has taken the assistance of private security firms and private armed escorts to reduce significantly the level of piracy in the Horn (Elmi and Knight 2016). Today, maritime piracy is at a 25-year low.

This chapter uses a political economy approach to understand, analyse, and explain the phenomenon of maritime piracy in one of the globe's most strategic maritime passageways. First, piracy is defined drawing on relevant conventions and constitutional documents of international organizations mandated to counter piracy. Then, a brief documentation of the emergence and surge of piracy in the Horn is provided. Finally, prescriptions for combatting piracy are examined culminating with a conclusion that recommends the adoption of a more sustainable and longer-term policy option for reducing and eventually eliminating this scourge. But first, it is important to define piracy.

Defining Maritime Piracy

Maritime piracy is defined as a universal jurisdiction crime (Burgess 2005/06, 93–341), according to the 1982 United Nations Convention on the Law of the Sea (UNCLOS). But one can go back to the Law of Nations and the Harvard Research Draft (1932) for early attempts to codify this criminal practice (Kraska 1932, 105–143). The 1958 Geneva Convention on the High Seas (GCHS) was, however, the first real attempt at the legal conceptualization of piracy. Article 15 of that Convention defines piracy as 'illegal acts of violence, detention or any act of depredation, committed for private ends by the crew or the passengers of a private ship or a private aircraft, and directed: on the high seas, against another ship or aircraft or against persons or property on board such ship or aircraft…' (Convention 1958). Using this definition, maritime piracy could only take place in the high seas (outside a state's territorial waters). This convention called on states to detain and arrest individuals

or groups committing such acts, but it was weak on provisions for combatting piracy and on the specific penalties that should be imposed.

Drawing on the 1958 GCHS, UNCLOS defined piracy as an 'illegal act' committed for private ends on the high seas (UNCLOS Treaty). UNCLOS left combatting piracy to the discretion of states (see Article 105). Apart from UNCLOS, the international community ratified a Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation (SUA) (Convention for the Suppression of Unlawful Acts). Over 160 countries are party to it, while 34 countries, including Somalia, are not. Destruction or damage of ships and navigational facilities as well as any act leading to the injury or death of any person at sea is deemed to be an offence under the convention (SUA Article 3). But note that SUA does not limit itself to the high seas; its provisions include combatting acts occurring within states' territorial waters and, as such, many countries consider SUA a violation of their sovereignty (Middleburg 2011).

UNCLOS and SUA, however, complement each other. The UN Security Council resolutions that target piracy encourage states to employ SUA in repressing piracy (United Nations 2011). In the early stages of addressing this problem, political and legal complications forced the international community to practise 'catch and release,' whereby many pirates captured by navies would be given a ride back to Somalia's coastline.[1] As a result, there was an increase in piracy simply because the incentives for capturing a ship or holding its crew hostage outweighed the consequences.

Aside from the above, there are two international organizations concerned with acts of piracy—the International Maritime Organization (IMO) and the International Maritime Bureau (IMB). The IMO, established in 1948 by the UN, embraced UNCLOS' definition of piracy and included in its security portfolio preventing and suppressing acts of piracy.[2] The other international organization concerned with maritime security, the IMB, is a specialized division of the International Chamber of Commerce (ICC). Established in 1981, the IMB's mandate is to battle all types of maritime crime and malpractice.[3] It defines piracy more broadly than what is found in the UNCLOS provisions by including the intent to commit crimes, like theft, against any ship in any area and by any means (Derek and Valencia 2005). For the IMB, any attempt

[1] Interview with a member of the inter-governmental organisations, Dubai, September 2013.

[2] Note that the IMO was an important player in the adoption of SUA. See Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation, available at http://www.imo.org/About/Conventions/ListOfConventions/Pages/SUA-Treaties.aspx.

[3] Interview with a member of the Industry, London, April 2014.

to hijack or attack a ship is piracy, regardless of whether that ship is in the high seas or in a country's territorial waters (Keyuan 2009, 323–345).

Somalia passed its first maritime law during the UN/Italian trusteeship administration in 1959 (Elmi and Affi 2014). That law was replaced by Law 37 in 1972 which, while not offering a definition of piracy, extended Somalia's territorial sea to 200 nautical miles and considered any crime occurring within Somali territory to be punishable through the penal code (Law of the Sea 1972). By ratifying UNCLOS, Somalia harmonized its national law with the global convention.

Piracy off the Coast of Somalia: Its Emergence and Upsurge

There is a recorded history of attacks on Portuguese and British Empire navies in Somali waters, as well as atrocities against shipwreck victims, conflict between coastal communities that led to clans attacking and capturing boats in Somalia's territorial sea, and insurgent attacks on illegal fishing boats.

However, attacks on ships, recorded in the fifteenth century in the Horn, were largely perpetrated by European powers, particularly the Portuguese Navy, which not only attacked Ottoman ships but also travelled up the east coast of Africa burning cities. As a result of these coastal attacks and the rivalry between the Ottoman and Portuguese navies, Zaila, the capital of the Muslim emirate—now northern Somalia—was forced to move inland to Harar in 1512 (Brown 1892). Between 1801 and 1960, there were over 40 shipwrecks in Somali waters. Somali locals in the coastal communities who took advantage of those shipwrecks were punished severely by the British Empire (Playfair 1899). Some of the recorded confrontations in the nineteenth century between Somali coastal communities and shipwrecked crews, which resulted in death and loss of property, were due to misunderstandings between Somalis and the British sailors. While there were certainly cases of atrocities committed against the crews and cargoes of the wrecks, many survivors reported that most crew members were well treated and some of them stayed in Somalia for months as guests. The British Empire eventually signed treaties and agreements with Somali clans to guarantee the safety of any crew and cargo shipwrecked on Somalia's coast (Playfair 1892; Hunter 1877).

From Somali's independence in 1960 to the unravelling of the central state in 1991, the country's coast remained relatively piracy-free. However, in the last few years of the weakened military government, an opposition rebel

group—the Somali National Movement (SNM)—seized several ships, including one from Panama on 5 December 1989 and one from Italy six days later, arguing that the ships' supplies were meant for the military government. Those attacks do not conform to the legal definition of piracy. In fact, after the collapse of the government, the SNM discontinued attacking ships (Samatar et al. 2011, 1377–1392).

Once Somalia became a failed state, its coastline became a free for all. Trawlers from different parts of the globe began fishing illegally in Somali territorial waters[4] (FAO 2005). Illegal fishing along the Somali coastline 'heightened after the disintegration of the Horn of African country into clan-based states following the overthrow of communist dictator Siad Barre' (Illegal Fishing 2000). In addition, foreign ships began dumping toxic waste into the Somali Sea. Some academics and observers began labelling these criminal activities as the 'other piracy' (Waldo 2013) or as 'resources piracy' (Samatar et al. 2011, 1377–1392). Those activities, while criminal, were legally not 'piracy.'

By the late 1990s, Somalia's coast became a risky route for ships as the number of piracy incidents grew (World Bank 2013). Somali pirates, some carrying sophisticated weapons, indiscriminately hijacked vessels fishing illegally off its coast as well as ships carrying weapons, oil, humanitarian goods, and commercial products (Neal 2011). As piracy escalated and broadened, Somali pirates created a situation that forced the world community to react swiftly (Fua et al. 2010, 677–697). Invoking Chapter VII of the UN Charter, the UN Security Council argued that Somali pirates were not only threatening one of the world's vital sea lanes of communication and trade, they were also a threat to world peace (UN Security Council 2012).

Piracy in the Horn of Africa waters threatens world economic development, especially with the interruption of trade in petroleum and gas products (see Swatuk (Chap. 31), this volume). In the Gulf of Aden alone, more than 20% of the world's shipments and 80% of Europe's maritime trade transit through that passageway (Kraska 2011; EIA 2014). Rising powers, India and China, rely heavily on this route for shipping their goods (Anyu and Moki 2009, 95–121). The expanding area of piracy activity threatened as well the economies of African and Middle Eastern countries, particularly those that export oil and gas. In fact, the majority of oil products from the Gulf region destined for Europe and the US pass through this important sea route (EIA 2013; Michaels 2012).

[4] At one point in the 1990s, the UN's Food and Agricultural Organization reported that more than 700 vessels were fishing illegally in Somali waters.

Combatting the Scourge of Maritime Piracy

Somali piracy attacks have had negative security, social, political and humanitarian consequences. But they have also had a significantly negative impact on trade and commerce for many areas of the globe and particularly for the Middle East and Africa (Johnson 2014). It is estimated that Somali piracy costs the world economy over $18 billion a year (World Bank 2013). Interestingly, the effects of Somali piracy are greater on countries in the Middle East and North Africa (MENA) than on countries in other regions of the world. Piracy affects 60% of MENA countries, compared to 23% of sub-Saharan Africa (SSA) countries. Most of the MENA countries use the Arabian Sea as their shortest shipping route. Compared with those countries that do not utilize the Arabian Sea, and with everything else being equal, MENA countries lose around 7.4% of value traded a year due to piracy in the Horn (World Bank 2013).

In 2011 alone, 3.4 million barrels of oil passed through the Bab el-Mandeb Strait in the Horn of Africa per day (Wile 2013). About 2 trillion cubic feet of Qatar's liquefied natural gas (LNG) per year passes through the Strait of Hormuz (EIA, US 2012). Qatar's LNG to Europe goes through Bab el-Mandeb, as does 30% of its oil. Arab nations faced the greatest maritime security challenges during the peak of piracy in 2009–2010. Those countries became seriously concerned with the slowing down of their economy due to loss of revenue and the added financial burden associated with increased transportation and insurance costs. It is estimated that diversion of ships from the Suez to an alternate route could cost Egypt alone some US$ 5 billion (World Bank 2013).

Furthermore, the decline in tourism and fishing in piracy-affected areas have led to a major loss of revenues for some nations in the region (World Bank 2013). Ironically, for some coastal communities, piracy has had some positive impacts, including the recovery of fish stocks in some areas, as foreign vessels avoided coming close to the Somalia coastline (Kraska 2011). For most Somalis living in predominantly piracy-affected areas, the influx of ransom money from ship hijackings created high inflation, leading to a rise in the cost of foodstuff and a decline in the Somali shilling, making life more difficult for ordinary Somalis (Shortland and Varese 2012). This was part of the reason why many Somalis eventually turned against piracy; essentially, the scourge began to have a negative impact on the ordinary Somali citizen.

It took the international community several years to acknowledge the magnitude of the problem and the risks posed to global security and the world economy. As mentioned earlier, by invoking Chapter VII of the UN Charter,

the UN recognized that this scourge had become a 'threat to world peace.' Since then, the Security Council has passed ten resolutions dealing with this issue. In some of them, the Council called on all member countries to use 'all necessary means' to defeat piracy while encouraging armed vessels to patrol the Somali coastline, particularly the Gulf of Aden (UNSC 2008). As a result of these calls, a number of on-shore and off-shore counter-piracy prescriptions have been suggested and enacted (Pham 2011).

Most observers have argued that solutions to the piracy problem in the Horn of Africa lie on-shore. Yet most of the policy prescriptions have largely concentrated on off-shore solutions. Off-shore counter-piracy efforts have included having naval warships patrol the high seas, placing private security personnel on board ships, constructing on-board 'citadel' rooms equipped with communication systems, creating safe corridors, and mandating the presence of Floating Armouries (Bueger 2012).

The international response to piracy has come from different organizations: the UN, the EU Naval Force (EUNAVFOR, Somalia 2018), the NATO, the CGPCS, the United States CTF, and current and former British Marines. Counter-piracy responses have come from a number of different countries of the Global North and Global South. Private sector shipping industries and insurance companies have devised their own methods for countering piracy as well. So, counter-piracy initiatives have come from both public and private sectors.

The primary method of combatting piracy from the perspective of the international community has been via the military (van Ginkel and van der Putten 2010, 179–187). As many as 30 counter-piracy ships have patrolled the Somali coast at any given time (Middelburg 2011). The CTF, the EUNAVFOR, and NATO naval forces are the three main fleets constantly on patrol along Somalia's coastline. The US Naval Forces Central Command (NAVCENT) formed the Bahrain-based Combined Military Forces (CMF), which oversees the CTF-150, CTF-151, and CTF-152. The CMF is tasked not only with combatting piracy but also terrorism. It is tasked with promoting regional cooperation and protecting the regional marine environment. There are 29 CMF member countries and the command of the task force rotates between them (BMP3 2010; Vego 2009, 169–180).

Due to the relatively large area in which pirates ply their trade—about 2.5 million square miles of international waters—each of the CTFs is responsible for patrolling a specific sector. CTF-150 protects the Indian Ocean, the Gulf of Aden, the Red Sea, the Arabian Sea, and the Gulf of Oman, while CTF-151 guards the Gulf of Aden and the Somali basin. CTF-152 focuses on the Arabian Gulf and the Gulf Cooperation Council (GCC), which has its own Maritime Security Operation (Monje 2012; BMP3 2010).

Also engaged in countering piracy is the EUNAVFOR Somalia, launched in December 2008 under the EU's Common Security and Defense Policy (CSDP) mandate. Known as Atalanta, these forces focus on protecting vessels in the Indian Ocean and the Gulf of Aden. EUNAVFOR established a Maritime Security Center in the Horn of Africa (MSC-HOA) to coordinate counter-piracy operations, register ships transiting in piracy-prone areas, and share information. Unlike CMF, EUNAVFOR operates only under EU command (EU Parliament 2013). In addition, EUNAVFOR monitors fishing activities off the Somali coast, although it does nothing to stop illegal fishing by foreign vessels within Somalia's waters.[5] Apart from its counter-piracy work, EUNAVFOR provides capacity building for countries in the region, delivers military training for the Somali Government, and promotes judicial international cooperation with respect to the prosecution of piracy suspects.

Alongside the US and the EU, NATO Naval Forces also patrol Somalia's coastline as part of the off-shore counter-piracy military response. The name of this operation changed several times—from Operation Allied Provider to Operation Allied Protector—and currently goes by the title Operation Ocean Shield. Operation Ocean Shield was established in 2008 as part of NATO's response to the UNSC's request for assistance in combatting piracy in the Gulf of Aden and the Horn of Africa. NATO seeks to comply with the various UNSC resolutions, by engaging in efforts to deter piracy activities and provide escorts while seeking to raise the level of security in the region (Nanda 2011, 177–208).

In addition to these three main operations under the auspices of the US, the EU, and NATO, respectively, a number of other nations sent ships to the Horn of Africa waters to assist in patrolling the massive ungovernable area in which pirates operate (Struwe 2009). Britain, China, Russia, India, Japan, South Korea, Malaysia, Iran, and Saudi Arabia are among those countries that contributed warships to counter-piracy military operation, independently commanding their ships, although coordinating activities with others (Elmi and Mohammed 2016).

The military responses, and the cooperation among states that are not traditional allies, demonstrate the enormous importance of the Horn of Africa and the Indian Ocean to the world economy. Although many navies of different states have indicated a determination to continue patrolling this strategically important maritime area, the reality is that the number of cases of piracy in the Horn of Africa waters has dropped significantly in recent years (Willett

[5] In fact, the EUNAVFOR does not even release data on ships illegally fishing off Somalia's coastline.

2011, 20–25). Given the costs of these counter-piracy measures, there are now some concerns that military escorts and patrols of vessels in this area may eventually give way to other issues of more pressing concern.

Essentially, military-based off-shore responses have three significant limitations. First, the magnitude of the geographical area in which Somali pirates operate is roughly 2.5 million square kilometres (Shinn 2009; Kraska and Wilson 2011; Shapiro 2012). The number of ships transiting through the Gulf of Aden every year is estimated be in the range of 21,000–30,000, increasing the likelihood that at some point some of them will be commandeered and their crew taken as hostage by the pirates (Aven and Steen 2010). In 2012, nearly 30 vessels were involved in counter-piracy operations; yet it has become clear that no number of naval ships can completely guarantee the safety in such a vast and busy maritime area.

Once the magnitude of the difficulty in eliminating piracy entirely became clear, the international community sought instead to contain it through the creation of an Internationally Recommended Transit Corridor (IRTC) for ships passing through the Gulf of Aden (Harlow 2011). Establishing the IRTC reduced pirate activities, but did not eliminate piracy altogether. Pirates responded by expanding their base of operation, attacking ships as far away as the Gulf of Oman and closer to the coast of India, ranging at times almost 1,800 nautical miles away from Somalia's coast (Monje 2012).

Second, the various naval warships' capacity to respond and immediately reach the site of piracy activity is limited. Pirates often attack ships in locations that are far away from where naval ships are patrolling. In fact, the solution of trying to interdict piracy attacks on the high seas is not practical (Reisman 2009). Moreover, the deterrent and repressive policies that warships adopted as part of counter-piracy initiatives have so far failed to yield sustainable solutions to the plight of this global sea lane (Chiarugi and Archibugi 2009). The reality is that although the number of successful piracy attacks in the Horn of Africa has dropped significantly (an estimated 80% reduction during 2011–2012), cases of attempted piracy attacks continue.

Third, international counter-piracy military operations cost roughly $1.09 billion annually to maintain. There are even added costs (approximately $2.06 billion annually) for employing private security firms and guards to protect ships (Oceans Beyond Piracy 2012). From 2005 to 2012, Somali pirates were able to extract some $53 million per year in ransom payments (World Bank 2013). There is a huge difference between the money Somali pirates collect from ransoms and the cost of short-term, unsustainable, ongoing military/counter-piracy operations carried out by the international community. This is not to suggest that piracy should not be combatted, but that the current

approach is far from strategically efficient or sustainable (Chiarugi and Archibugi 2009). So, an important question to raise is: why does the international community persist in pursuing this expensive and short-term-based method of fighting piracy? Another major question is: what will happen once the warships eventually head home? We are beginning to see the answers to those pertinent questions. By 2016, the risks of a return to increased incidents of piracy had grown.

Besides the navy, the shipping industry recommended the use of armed private guards on board ships transiting through high-risk areas. It also embraced other 'self-protection measures,' such as using private security companies' escorts, utilizing water cannons and fire hoses, building high electrified fences, creating secure 'citadel' rooms, and enacting passive sonic defences. The introduction of private armed guards on commercial ships significantly reduced the success of pirate hijackings (Spearin 2010; Ploch et al. 2011). Initially, the cost of armed guards was over US$ 60,000 for one voyage. By 2013, the estimated total cost of using private security and armed guards reached up to US$ 2.06 billion annually (Oceans Beyond Piracy 2012).

There are concerns that PSC, in some cases, may be violating human rights laws with impunity (Spearin 2010). In fact, XE Corporation, formerly known as Blackwater International, which has been accused of human rights violations in countries like Iraq, is currently involved in helping secure the area around the Horn of Africa and has signed an agreement with the government of Djibouti to that effect (Mazzetti 2010). Although helpful, the use of armed guards on board commercial ships has had the unintended consequence of turning these civilian vessels into warships. At times, pirates employ heavy weapons when they confront the armed guards of those ships, causing increased incidents of casualties and exposing seafarers to higher risks of torture and death when taken as hostages (Affi et al. 2016).

Another complication of utilizing heavily armed individuals on commercial ships is that these individuals may commit human rights violations by summarily executing innocent fishermen. In fact, experts have troublingly noted that some security firms do commit human rights violations against anyone they assume to be a pirate. Navies report any injuries or deaths caused to pirates, but not one security firm has reported such incidents.[6] Moreover, ships that are armed might be violating the rules of their destination, because some countries in the region do not allow armed crews into their ports (Ploch

[6] Interview, Dubai, 11 September 2013.

et al. 2011). The uncertainty of port destination rules regarding ships with armed crews inhibits the complete acceptance of armed guards on board commercial vessels.

Finally, the shipping industry has made physical modifications to some ships by adding 'citadels'—secure rooms with outside communication where the crew can safely hide when under pirate attacks (Shortland and Varese 2012). In a citadel, the crew can safely guide a military vessel, via its communications equipment, to conduct rescue operations (Monje 2011, 43–56). The shipping industry has also employed other techniques such as increasing vessel speeds up to 18 knots, making it difficult for pirates to even board ships (World Bank 2013).

Conclusion

Piracy in the Horn of Africa waters is of concern for the entire globe because of its negative impact on global trade (Mbekeani and Ncube 2011). The steady rise in these attacks since 2007 reached its apogee around 2011. In 2010, there were about 1,181 sailors captured by Somali pirates. A number of these sailors were killed while under the control of the pirates, and many others were taken hostage for large sums of money.

The international community had to do something. Pursuant to UNSC resolution 1851, a CGPCS was established in 2009. This voluntary, ad hoc international forum was tasked with coordinating the fight against piracy in the Horn of Africa waters. CGPCS has over 60 states as members, clearly indicating a global consensus to address this scourge. While the public-private partnership used to combat piracy has worked to a large degree, there are signs that this short-term measure may not eliminate piracy altogether. Off-shore responses need to be complemented by on-shore initiatives in Somalia itself (Holzer and Jürgenliemk 2012). Perhaps, this approach will be developed and enacted through the new Trust Fund to Support Initiatives of States Countering Piracy off the Somali coast. This Trust Fund was put in place by the UN Secretary General in January 2010, at the request of CGPCS.

The main objective of this Fund is 'to support prosecution and detention-related activities' and other priorities related to combatting piracy in all its aspects. This Trust Fund is governed by a Board consisting of ten member states of the Contact Group. The UN Department of Political Affairs (DPA) is the Chair of the Board and the Trust Fund is managed by the UN Office of Drugs and Crime (UNODC 2010). The challenge for the UN DPA and UNODC will be how best to steer some of the funding in this Trust Fund

towards on-shore projects that would keep Somali youth away from a life of piracy and ensure that efforts to combat piracy in the Horn of Africa waters are sustainable (see Muggah (Chap. 29), this volume, for more on youth and crime prevention).

Even though they may be the best long-term, effective resolution to piracy, on-shore solutions are seldom considered by the international community. Attempts at on-shore solutions have been limited to the regional and federal administrations in Somalia, which employ limited land-based responses to the piracy phenomenon. These included public campaigns; leaflets; anti-piracy advertisements on local radios, television, and in newspapers; as well as occasional public rallies warning of the evils and undesirable consequences of piracy. The Puntland Government and several NGOs undertook public campaigns through mosques, radio stations, and public forums to discourage youth from becoming pirates (Bueger 2012, 15–31; Bahadur 2011). To entice young men away from piracy, the Puntland Government has given amnesty to former pirates and then used them as part of a public awareness campaign to showcase, through real experiences, the immoral face of piracy (Bahadur 2011). Creating limited employment opportunities for coastal communities, particularly youth; conducting workshops to educate the public, including elders; and rehabilitating former pirates have all become part of this strategy (Bueger 2012).

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31

A Political Economy of Water

Larry A. Swatuk

Introduction

Water is no ordinary good, economic or otherwise. Among other things, it is essential, non-substitutable, scarce, fugitive, indivisible, bulky, and complex (Savenije 2002). While we all, as individuals, cannot live without it, water used in our highly differentiated daily pursuits varies dramatically in terms of both quantity and quality: from as little as 10–100 litres (from one-one hundredth to one-tenth of a cubic metre) per person per day for immediate household purposes, to thousands of cubic metres per day used in complex, extensive, cash-crop oriented, irrigated agriculture. Water is in everything, and so begins its travails, as humans wrestle with this complex resource so as to bend it to their will. In this short essay, I showcase some of the main points of contention regarding the ways and means of accessing, using, and managing water: a political economy of water, if you will. The focus here is on freshwater systems, though, as most of us know, water cycles through the atmosphere with most freshwater deriving from rainfall, some of it from clouds generated by the salty oceans of the world. As stated earlier, it is an indivisible system, a fact that 'modern man', in all his resource-gobbling glory, has had a very difficult time accepting.

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How Much Water Is There?

The world's water is an abundant resource; after all, Earth is 'the blue planet'. According to L'Vovich (1979), about 525,000 km^3 of water falls as precipitation each year. Of that total, roughly 156,500 km^3 falls over land where it partitions in several different ways. At the first partitioning point, water either enters the soil or runs off the land. At the second partitioning point, the water that has entered the soil either evaporates directly back to the atmosphere or is retained as soil moisture to eventually transpirate through plants, or seep more deeply into underground aquifers, thus joining the surface water system, running off, in most cases, to the sea (Falkenmark and Rockström 2004). Given that the system is a never-ending cycle, there exists a paradox of sorts where water, though abundant, is fugitive—creating scarcity—but ever returning, so offering humans the chance to reconfigure their own social systems in line with freshwater availability. Not since the advent of settled society, however, have humans lived within the boundaries of the natural system. While settling around significant water bodies, we humans much prefer to bring whatever extra water we need to us and to remove that which we deem to be 'too much'.

Put differently, collective and individual human choices are at the heart of 'scarcity', irrespective of what groups such as the World Economic Forum (WEF 2011) tell us. Too much, in my view, is made of the fact that of the 100% of water available to us on Earth, a tiny fraction is readily available for our use (the so-called freshwater lens). Among other reasons, this 'tiny fraction' is in fact a great deal of water which is ever renewable. More importantly, in relation to scarcity, are the following facts: humans have settled in odd places, carved out 'independent' states where no rational person would have done so, attempted to grow crops and raise livestock unsuited to the climate, and carried their locally ecologically derived values around the world ignoring signals from the 'new local' that neo-Europe is not Europe (Crosby 2004). Were we to take only what we need, we'd have more than enough water. By taking what we want, however, we have created a wide array of problems related to the access, use, and management of the world's freshwater resources.[1] Scarcity, therefore, to quote Lyla Mehta (2001, 2007), is socially constructed.

[1] J Anthony Allan argues that the appropriate spatial management unit for water is not the 'watershed'; rather, it is the 'problemshed', given the absence of locally derived ecological delimitations to our water-use profiles.

A great deal of the scarcity narrative revolves around individual access to sufficient potable water for personal needs. Yet, despite our world's human population, household water is 'small water' (Savenije 2002), comprising in most cases less than 10% of total freshwater withdrawals. Granted, this 'small water' requires 100% assurance of both quality and quantity, so demanding special attention. At the same time, irrigated agriculture is the largest user worldwide by far, accounting for some 70% of total withdrawals. Industry generally uses about 20% (Falkenmark and Rockström 2004). As shown later, all of our water-related problems reflect this distribution.

Water and Power

Water is power. Those able to control it, through technical, economic, and political means, constitute the dominant class within all social formations across time and space (see Knight and Elmi (Chap. 30), this volume). To quote Solomon (2010, 87) in relation to ancient Rome: 'As in all ages from antiquity to the present, the pattern of water distribution reads like a map of society's underlying power and class structures'. So, while ancient Romans were among the first to treat water as a public good by building aqueducts to deliver fresh water to large urban centres, 'public basins and fountains used freely by ordinary people … received only 10 per cent of total aqueduct water' (Solomon 2010, 87). But that 10% was more than enough to ensure the political legitimacy of the empire's ruling class.

In the developed world today, this 10% is shared quite equitably. Pockets of poor access to both water and sanitation, as on native reserves and among the homeless, mark the exception rather than the rule, whereas, across the Global South, this 10% of total water withdrawals is shared inequitably. Cullis and Van Koppen (2009), for example, demonstrate how the Gini index for water inequality almost perfectly mirrors that for income inequality in the Olifants River Basin of South Africa. While it is well known that per capita water use in the United States is approximately 15 times greater than it is in Sub-Saharan Africa, it is important to note that there are dense pockets of 'the Global North' in the 'Global South', wherein water use approximates that of Western countries. Meanwhile, use profiles of people in neighbouring high-density areas—for example, slums, informal settlements, peri-urban formal settlements—are generally well below the Sub-Saharan African average (UN Habitat 2010). Thus, at a global level, national 'water footprints' map out hierarchies of power among states but mask sometimes stark domestic inequalities. Within states, particularly those of the developing world, access

to small water is a political issue, not a physical scarcity issue. Even in the driest parts of the world, such as the Yemeni capital of Sana'a, there is more than enough water for everyone's household needs. Water is available, as is the technology to access and deliver it. That many are relegated to drawing water from public fountains is not a scarcity issue but one of misguided political priorities on the part of leadership.

Sadly, this is a common condition even in the wettest parts of the world: the Tropics. For example, where freshwater availability is greatest across the African continent—that is, Central Africa (with 48% of total continental run-off) and the Gulf of Guinea (with 24% of total continental run-off)—people in these regions (in terms of percentage of people per country) have the least access to potable water and sanitation on the African continent. To cite but four examples: in Angola, 68% of the population in 2012 had access to improved sanitation services; in Cameroon it was 44%; in Kenya, 29%; and in Uganda, 33%. In terms of access to improved water sources, the statistics are as follows: Angola, 34% rural and 68% urban; Cameroon, 52% rural and 94% urban; Kenya, 55% rural and 82% urban; and Uganda, 71% rural and 95% urban. When one considers the very broad definition of 'improved', as well as the dubious functionality of many of these urban 'systems', these statistics reveal extremely poor performance across a part of the world where there is no physical water scarcity.[2] Similar data may be found for large parts of Central/South America and South/Southeast Asia. Most readers will have seen and/or experienced these conditions for themselves across various parts of the Tropics. Most will also be familiar with the infamous Cochabamba 'water wars' (Assies 2003). Clearly, unequal societies share water unequally; so, access to water mirrors society back to itself. That governments around the world, particularly in the Global South, are unwilling to ensure citizens' access to adequate amounts of 'small water' says a great deal about the political economy of underdevelopment. Small water is big politics.

State power rests on a successful 'hydraulic mission' (Allan 2003). Historically, with water beyond control, humans were at its mercy: drought, flood, following the rains in small bands of hunter-gatherer societies, settling in valleys along mid-stream, or in and around lush deltas, competing for the resource not only with other humans but with all other forms of life—including disease-bearing mosquitos and a wide variety of mega-fauna. The settled spaces we inhabit today are the result of relatively recent events in world history and largely the result of having discovered how to bend water to our

[2] Source for the data: http://data.worldbank.org/indicator/SH.STA.ACSN/countries?display=default and http://wdi.worldbank.org/table/3.5

will. Civilization is a direct result of a combination of human's ability to correctly predict water resource availability and innovations to make more of it available when and where it was needed (and to compensate for those times when our predictions were wrong). With the rise of settled agriculture, we no longer had to chase the rains. And with the development of irrigation systems we could increase yields, guaranteeing, for the first time in human history, food surpluses sufficient to sustain large populations. Simply put, the control of water made civilization possible (Solomon 2010).

Karl Wittfogel, in his 1957 classic, *Oriental Despotism*, proposed a causal link between the character of social formation and the extent of irrigated agriculture: the more complex the system of irrigation, the more likely you would be to find an authoritarian regime whose leaders were able to command the labour of thousands in the service of the kingdom or empire. This is a compelling argument and one we should consider carefully today. Publicly available potable water and sanitation systems in ancient Rome were only possible because of slave labour and a highly militarized society. Wherever you look through world history you see the same pattern in river basins great and small, from the Nile to the Tigris-Euphrates, to the smaller river systems in Central America and Europe. So how is it that a democracy such as the United States was able to launch the greatest 'hydraulic mission' in world history? I would argue that primarily twentieth century's exceptional circumstances of continental expansion from East to West, the advent of two World Wars separated by a global economic depression, and followed by the Cold War gave American policymakers the 'nationalist' motivation to drive industrial production and to create the infrastructure—particularly large hydraulic works—to sustain that production. And in that drive came business and 'the consumer society' along for the ride.

Why do I think we should consider the relationship between authoritarianism and water resource development so carefully today? Or the particular 'national security in a competitive world' drive for hydraulic developments across not only the United States but Europe and the UK (including its dominions—New Zealand, Australia, South Africa, Canada), as well as in their colonies? The reason is because, today, in my opinion it is really only China and India that exhibit any such predilection towards a sustained, state-directed hydraulic mission. No matter what the other states say that they are interested in, early twenty-first century democracies everywhere are having a very difficult time generating either the social consensus or financial capital necessary for infrastructure maintenance, let alone new development. What many people forget, don't know, or ignore is the fact that most of the public infrastructure enjoyed by the vast majority of those living in the Global North

today—from mass transit systems, to public roads, to water, sanitation, and electricity—resulted from strong central states driving developmental agendas because they were either at war, preparing for war, or recovering from war. Inter-state competition rendered irrelevant the complex questions regarding technical, financial, and human capacity: there was 'political will', so a way was always found (Harris 1986).

Water in Development

We often hear the phrase, 'more than 1 billion people lack access to potable water and 2.5 billion lack access to sanitation'. Many of us also remember the terrible floods in Pakistan in 2010 and the present and persistent shortage of water across the American Southwest. Presently, the South African coastal city of Cape Town is facing the very real possibility that it will run out of water even if the rains do come as expected in 2018. Many argue that these events are either a direct consequence of climate change or a harbinger of future climate change-induced extreme events soon to come. The past is no longer a good predictor of the future. So, where are the (political) will and the (financial, technical, and human capital) way(s) to undertake the hydraulic mission necessary to address such abiding and disturbing problems? In order to answer these questions, we need to see how water is used in development.

Through history, we have gradually developed our civilizations around a quadratic approach to water management: 'damming, draining, diverting and dumping' (Conca 2006). Storing and/or moving water through history has focused on the often simultaneous need to move the water itself, people and things, and to link various resources to people and production, ultimately for consumption. All of this activity inevitably has turned the vast majority of the world's waterways into 'working rivers', which are a far cry from their 'wild river' predecessors. There are many engineers who will tell you that any water that reaches the sea is 'wasted' and should have been put to better use. Such an attitude derives from the 'high modern' worldview that regarded it as 'man's, primary mission to tame nature. And it is a telling fact that of the more than 45,000 large dams built around the world (see wwf.panda.org), most of these were constructed—especially the mega-dams—between 1950 and 1990 (see http://www.internationalrivers.org/problems-with-big-dams), following the spectacular success in the United States with the construction of the Hoover Dam on the Colorado River. Given space constraints, let me highlight some of the main issues surrounding damming and diverting of the world's waters.

Damming

Dam building is a direct consequence of settled society. The earliest dams were constructed for flood control and to provide water for irrigation (see: http://www.water-technology.net/features/feature-theworlds-oldest-dams-still-in-use/). While dams continue to be built, they remain highly controversial. The main arguments in support of dam building are tied to the expressed need for dependable flows of water for agricultural and industrial production and maintaining a steady supply of water for cities; thus, single and multipurpose dams are regularly constructed in the name of irrigation, recreation, flood control, flow regulation, improved navigation, hydropower, and drinking water.

At the same time, there are many valid criticisms of dams, particularly large dams, defined as those more than 15 metres in height and/or with a capacity greater than 3 million cubic metres. These criticisms focus on negative impacts such as habitat degradation, loss of biodiversity, fisheries' destruction, deoxygenation of waters behind the reservoir and in downstream flow, destruction of cultural and social spaces, and the physical displacement of millions of vulnerable peasant farmers (Pittock 2010). Many environmental organizations, such as International Rivers (see http://www.internationalrivers.org/), partner with marginalized social groups in order to raise public consciousness regarding the high social and environmental costs of dam building. Perhaps the most damning criticism of all, however, is that 'dams displace democracy'—a rather clever way of pointing out that the decision to impound water and to flood farms, forests, and even cities and villages is rarely, if ever, taken outside the main halls of political power.

Vandana Shiva is a well-known anti-dam advocate who has tirelessly worked to make the world aware of the social and environmental costs of, among other things, the Narmada Water Project in India. She has also worked very hard to mobilize citizen groups at local, national, and global levels in order to stand-up to the powerful set of interests that drive dam development. To paraphrase Ms. Shiva (2002), the argument in support of large dams is invariably 'improved agricultural production', but rarely is the question ever asked 'for whom?' This is an important point, particularly as we enter an era of 'land-grabbing'—which invariably entails water rights grabbing as well—where irrigated industrial cash-crop agriculture is displacing smallholder production of food crops for the household and for local markets. In Steven Solomon's (2010) words, this transfer of water from one group of users to another is 'zero-sum economics', that is, 'my absolute gain in water and land is your absolute loss in water and land'. History is replete with these examples, from

the Tonga of present-day Zimbabwe, flooded out by Lake Kariba, to the millions of Chinese citizens forced to move or suffer the consequences of rising waters trapped behind the Three Gorges Dam—the same outcome separated by 50 years of history.

In 2013, I visited the Hoover Dam for the first time, and like everyone else who has ever stood on the dam wall and gazed north out over Lake Mead or south and down to the Colorado River some 220 metres below, I was absolutely amazed by the capacity and creativity of men to shape the world to fit what are in fact quite limited interests. I say 'men' because the era of high modernity was characterized by man's belief that, as was his right, he could control nature, which in the latter part of the nineteenth century and early-to-mid part of the twentieth century included also women and other 'inferior' peoples of the Earth. As stated above, 'water is power', and by the end of the Second World War, the United States had emerged as the overwhelming political and economic power in the international system of states. This was partly due to the many innovations involved in hydraulic infrastructure. As noted by Solomon (2010, 338): 'By the mid-1930s, the five largest structures on Earth, all dams, were under construction in the western United States'.

Post-war economic reconstruction in Europe was complemented by showpiece project developments across the decolonizing world, Japan, China, and the newly emergent Soviet Union. By the mid-1950s, multipurpose dams indicated development. Some four decades later, large dam building projects had slowed to a trickle, mostly because social and environmental movements were better organized and more effective in challenging the claims made in support of these mega-projects. In 1997, the World Bank and the International Union for Conservation of Nature helped convene the World Commission on Dams. According to their final report (WCD 2000, 6):

> Dams have made an important and significant contribution to human development, and the benefits derived from them have been considerable. In too many cases an unacceptable and often unnecessary price has been paid to secure those benefits, especially in social and environmental terms, by people displaced, by communities downstream, by taxpayers and by the natural environment.

The Commission's final report provided a blueprint for dam building that would ensure that the wrongs of the past would not be repeated. As shown with dams and dam building projects, such as the Three Gorges Dam in China, the Belo Monte in Brazil, the Grand Ethiopian Renaissance Dam (GERD), and the Xayaburi in Laos, the lessons of the past have not been

learned. Since water is power, dams continue to serve as powerful symbols of the capacity of the state to act in its own interests. As such, it is understandable that dam building continues to change social and ecological landscapes around the world.

Diverting

With the rise of the industrial era, human settlement patterns have departed significantly from the logic of resource endowment in two fundamental ways. First, we often settle at the point of resource extraction, with mining towns being a prime example. Minerals are most often found at the top of watersheds. In other words, at that point where rain falls and then runs away. Johannesburg is an extreme example of this: initially a haphazard mining town, it is today a metropolis of millions. Other less extreme examples of 'top of watershed' settlements are burgeoning cities, such as Bulawayo and Harare in Zimbabwe, settlements that started off as small fortresses but then blossomed into administrative centres and eventually, in the case of Harare, a primate capital city—where the water runs away. Many other cities began as settlements close to freshwater springs, or along middle rivers where settled agriculture could flourish, or at coasts at the foot of river deltas in support of trade.

Second, the absolute growth in numbers at these particular locations has been staggering: from thousands to millions in many cases, hence, the need for extensive infrastructure development. Canals, aqueducts, and other means of water transfer and water for the transfer of people and goods have a long, proud lineage in human history. The Bridgewater Canal, named after the English Duke of Bridgewater, was built over two years, 1759–61, in order to ship coal from the Duke's Lancashire mine to its main market in Manchester. The success of this canal set off a major canal-building era in the UK (Solomon 2010). Predating the industrial era by more than 1,000 years, the 1776 km Grand Canal in China connects the high-flowing Yangtze River in the south with the lower-flowing Yellow River in the north. Today it is still considered one of the great symbols of the 'hydraulic society', where political will combined with perceived need and authoritarian rule makes just about anything possible. High modern examples of these historical practices, such as the Central Valley Project in California and the Central Arizona Project, both in the Western United States, stand as aspirational examples of what is widely regarded as a 'successful hydraulic mission' to political leaders around the world. Given the complex needs of today's societies, it is difficult to argue

against schemes which regulate flow and (mostly) reliably provide water for all uses. The fact that these projects have made 'the desert bloom' and cities such as Las Vegas, Phoenix, and Los Angeles arise from their arid environments inspires political leaders, engineering firms, and settlers and farmers of all types around the world—irrespective of the many, serious, and well-documented problems associated with these projects, from ecosystem destruction (e.g. the Aral Sea) to the decimation of communities dependent upon the natural flow of the resource (Boelens et al. 2016).

A Litany of Issues

It is abundantly evident that water has served the rich and powerful in all societies through time. As shown in the context of water for development, technical processes for harnessing water to empire- and state-building missions have shown remarkable consistency. Water's absolute abundance, and locational sufficiency for household purposes, does not lessen the very real severity of water-related issues and challenges around the world. These can be grouped into four broad categories: water for cities, water for food and agricultural production, water for rural areas, and water for industry and energy. Space constraints counsel a cursory exploration of some of the key elements of only two of these categories: urban water and agricultural water.

Urban Water

Water for cities requires, among other things, complex systems of assured supply. Developing and developed states face related but different challenges regarding urban water security. In the Global North, many systems of supply are more than 100 years old. While extensive in nature, serving in some cases tens of millions of customers, the thousands of kilometres of pipes are in need of replacement. In the Global South, systems in primate cities may be as equally old as their Northern counterparts, yet they are far less extensive, having been developed to serve colonial/settler elites under the aegis of empire. So, while desperately in need of repair, there is the equally important pressure to extend the network to all citizens. Complicating matters are growing populations and constrained municipal budgets. Following the end of colonial rule, and in South Africa's case, apartheid rule, people have crowded into the cities looking for economic opportunity. Most of these newcomers have settled informally. The world's slum population now approaches 2 billion (UN

Habitat 2010), and slum dwellers are not normally rate payers. Obviously, systems deliberately designed to serve the few continue to have difficulty in serving the many. From Bangalore to Bogotá to Blantyre, the same may be said for any other city of the Global South, irrespective of size (Gopekumar 2012).

Water for Food and Agriculture

Most of the world's withdrawn water goes to support irrigated agriculture. It is estimated that irrigated agriculture produces approximately 40% of the world's food supply (Falkenmark and Rockström 2004; see also Modi (Chap. 25), this volume). This means that rain-fed agriculture produces most of the world's food while accounting for none of the withdrawn water. In my view, this is an important point, for so much is said about 'decreasing freshwater availability' and its link to not just water (in)security but to the possibility of violent conflict within and between sovereign states. As shown by Falkenmark and Rockström (2004), the vast majority of the water humans require is contained in food (up to 1300 m^3/cap/yr out of a total demand of 1600 m^3/cap/yr), and since most of this water derives from rain-fed crops, it is important to reflect on the potential of improved rain-fed agricultural production to contribute to local, national, regional, and global food security.

One cannot overestimate the importance of this perspective for states and international organizations, such as the World Bank and the Food and Agricultural Organisation (FAO), continue to place great stock in extending land under irrigation. Indeed, the GERD project is designed in part to ensure national food security for Ethiopians. But dams, as highlighted earlier, rarely support those most in need of agricultural extension: smallholder farmers tending plots of 2–4 hectares (ha). Rather, they often displace them in favour of agribusiness, usually farming cash crops for export. While the revenue generated from these large-scale endeavours may support the expansion of urban services—so indirectly supporting household livelihood security—they often turn the rural areas into a battleground between local peasants and foreign multinational enterprises (Akram-Lodhi 2012; Ong'weng Okuro 2015). If governments—acting in the name of the state—were truly focused on food security, argue Falkenmark and Rockström (2004), they would direct their efforts to where the raindrop hits the soil. This they call 'vapour shift': encouraging better farming and land management practices so as to encourage increases in soil moisture through water retention and decreases in direct evaporation. This is not to suggest that dam building should be off limits. To

the contrary, the most important dams to be built are at farm or cooperative or community level: small and complementary to the rains, whose time of arrival is becoming less certain under climate change. This is a complicated task, for it entails sustained and meaningful engagement with tens of thousands of farmers across the rural landscape. Governments, occupying state house in the capital city, obviously prefer the simplicity of big infrastructure which, during completion, can be claimed as evidence of their commitment to the 'national interest'.

Delivering Development

It seems that there is always money and political will for the damming and diverting of the world's waterways, often in spite of the clearly articulated social, economic, ecological, and political risks associated with the activity. This is especially so in light of the confluence of major global norm entrepreneurs such as the World Bank and the World Economic Forum (WEF) carefully articulating water scarcity as a looming global crisis. The so-called WEF (Water-Energy-Food) nexus has emerged as a dominant discursive framework for thinking about infrastructure under climate change (Swatuk and Cash 2018). At the heart of the WEF nexus is the commodification of water: appropriate pricing will lead to the appropriate allocation of the resource (Matthew 2018). Emphasis is on the word 'appropriate', for it implies 'sustainability of use': a scarce resource must be priced so as to ensure its sustainability. If the price of water can be gotten right, it makes it easier to price agricultural commodities and activities and energy resources and infrastructure projects since the three are intertwined and mutually impacting. This is particularly important in the era of climate change, since new uncertainties regarding the hydrological cycle make stakeholders nervous and prone to resource capture. Since much of the world's water is shared by two or more states, it is even more important that the WEF nexus be moved to the centre of intra- and inter-state policymaking (Earle et al. 2015).

Yet, water, as stated above, is not an ordinary economic good. In particular, it is complex, meaning, among other things (Savenije 2002, 743)

- It is a public good.
- Although it is fugitive, 'it is bound by its location of origin and its natural conveyance system'.
- 'There are high production and transaction costs involved, even when gravity is used to transport water.'

- The market for water is heterogeneous.
- 'There are macro-economic interdependencies between water using activities.'
- 'There is always the threat of market failures in water supply.'
- 'Water has high merit value.'

Despite these facts, the dominant discourse of neoliberalism continues to find ways to subject water access, use, and management to commercialization (Swatuk 2018a, b). To be sure, water falls free from the sky but pipes cost money. So, someone must pay for its supply. But how and who are questions that should be discussed as part of a broad and sustained stakeholder engagement. Bakker (2013), in a reflection on the possibility for a post-neoliberal era of service delivery, argues that those who favour such a turn should be wary of what is actually happening. For about 15 years, beginning in the early 1990s, the state was forced into retreat by Bank/Fund cross conditionalities, making way for the advance of the private sector in (particularly urban) water supply. Due to a combination of factors, the private sector has been in retreat everywhere, except in China and a few select cities and (middle-to-upper income) countries. Yet, she argues, this does not mean a citizen-centred state has moved to the forefront of service delivery, far from it, actually. What we find today is a reorganization of delivery (e.g. public-private partnerships), a refined focus on the part of the private sector, and a discourse of development in line with commercialization and commodification. For 'development' to be 'delivered', then, market principles must be employed. In the absence of capital for investment, those most in need must be satisfied with whatever they can get. In many cases, this means bartering for big dams with China and land allocations with India, Korea, Saudi Arabia, and many European countries (Swatuk 2018b).

Conclusion

The political economy of water is complex, and it is difficult to do justice to all of the issues in a short chapter. Despite the brevity of the narrative, it is possible to draw several general conclusions from the text. First, history has demonstrated quite clearly that while water flows along the hydraulic gradient, it is perhaps more accurate to say that water flows towards money. The Central Arizona Project in the United States demonstrates very clearly how money can change the course of rivers, pump water over mountains, and drive the emergence of cities in the desert. As long as Las Vegas and Phoenix exist,

as long as the extensive industrial agriculture of California exists, state actors will continue to ignore the natural parameters in favour of technological innovation for capital accumulation.

Second, history shows that the extension of water of appropriate quality and quantity to all citizens is not a natural activity of states. To the contrary, water democracy is a consequence of the civil society's long struggle and engagement with the state. To paraphrase Gramsci, civil society gets the water (and the state) that it deserves.

Third, because water is not an ordinary economic good, it is virtually impossible to adequately address all issues and challenges once and for all. Stakeholders are too diverse. Their needs, interests, and capacities too varied to ensure economic efficiency, environmental sustainability, and social equity—the 'triple E' bottom line of Integrated Water Resources Management—across even what appears to be the least complex sociocultural terrain. There have been numerous international forums seeking to articulate a magic formula for global water governance (Conca 2006). Yet, it has not been possible to move in the desired direction as stated by the doyens of august water organizations, largely for the reasons just cited.

Fourth, and last, it seems to me that while neoliberalism has done more harm than good where managing water resources is concerned, it is unlikely to be dislodged as a dominant ideology any time soon (Swatuk 2018a). This is because, as the dominant discourse, neoliberalism serves the water-related interests of the most powerful. There is a great deal of money to be made in actions to combat 'water scarcity' and ensure 'water security'. It matters not at all that, in the meantime, the poor continue to suffer. Thus, those most in need of water security—the urban and rural poor—and who have long suffered water scarcity will have to fend for themselves and/or organize and confront the state.

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32

Sustainability

Fred Gale

Introduction

IPE and sustainability have co-evolved over the past 40 years under the twin pressures of ever-deepening neoliberal globalisation and environmental degradation. Globalisation has seen the massive expansion in international trade, investment, and finance and an associated rise in international organisations, multinational corporations (MNCs), and civil society organisations. In conjunction with the development and spread of information and communications technologies, the global political economy has transnationalised, giving rise to new forms of public, private, and hybrid governance. Globalisation has been associated, however, with high levels of tropical deforestation, fisheries depletion, biodiversity loss, and global warming. From a social justice perspective, deep-seated inequalities remain within and between countries in the Anthropocene (Biermann et al. 2012), with coefficients of inequality now greater than they were at the outset of the globalisation push (Piketty 2014).

The negative trends associated with neoliberal globalisation have given rise to efforts to embed the environment as a category within International Political Economy (IPE) theory. Three established 'environmental' perspectives and one emerging 'sustainability' perspective can be identified: green mercantilism, liberal environmentalism, eco-socialism, and sustainability governance. The first three build on well-established IPE approaches, integrating

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nature into pre-existing anthropocentric, state-centric theories; the latter, in contrast, builds on emerging practices to develop a more ecocentric, multi-actor approach. To illustrate the latter, I examine how sustainability governance is reconceptualising the trade-versus-environment debate in IPE.

International Political Economy and Sustainability

Emerging as a distinct sub-discipline of international relations in the 1970s, IPE came under pressure in the 1980s to respond to the increasing number of environmental threats. The broad approach taken was to treat these as additional policy issues, manageable by states acting alone or in cooperation. This remains the dominant approach today despite its evident failure and early recognition by Williams (1996) that environmental issues are different due to their 'uncertainty, uniqueness and irreversibility' and, one could add, scientific complexity.

Analysts focused initially on four issues (Young 1989): transboundary conflict (e.g. acid rain), tragedy of the commons (e.g. overfishing), natural resource exploitation (e.g. deforestation in the Amazon), and cross-sectoral (e.g. global trade policy). Conceptualised this way, solutions lay in national action coupled with international cooperation. This 'first-world' framing, however, was challenged by developing countries who considered the environment a 'luxury good', something affordable once hunger and poverty were tackled. In the early 1970s, such North/South disagreement threatened to derail the United Nations Conference on the Human Environment (UNCHE), held in Stockholm, Sweden, in 1972.

Despite the challenges, many deemed UNCHE a success as it put the environment on the international agenda and agreed several important initiatives, including establishing the United Nations Environmental Programme (UNEP). Despite UNEP's status as a 'programme', not a specialised agency, and a budget a fraction of that required, it subsequently played a catalytic role in fostering international environmental action within the UN system. Under its leadership, the United Nations set up a World Commission on Environment and Development in 1982 chaired by Gro Harlem Brundtland, a former Norwegian Prime Minister. With high-level representation from countries around the world, including significant and effective representation from developing countries, the Brundtland Commission issued *Our Common Future* report in 1987.

The Brundtland Report aimed to reconcile First World concerns over environmental protection with developing country concerns over poverty. It did

so by elaborating the idea of 'sustainable development', a concept derived from the International Union for the Conservation of Nature's 1980 *World Conservation Strategy*. The Brundtland Commission did not merely appropriate the sustainable development idea but transformed it from a 'limits to growth' approach to one that denied any contradiction between economic growth and environmental protection. Following Brundtland, the world accepted without much evidence that high rates of economic growth and extensive levels of environmental protection were compatible. The resultant 'compromise of liberal environmentalism' (Bernstein 2001) was on full display at the 1992 United Nations Conference on Environment and Development (UNCED) held in Rio de Janeiro, Brazil.

In retrospect, UNCED constituted a high water mark in international environmental concern, the issue moving down the global agenda in the ensuing years. At the time, however, considerable optimism permeated state environmental agencies, business groups, and civil society organisations that the world had finally grasped the environmental challenge. Deals were struck on several high-profile issues including the signing of the Framework Convention on Climate Change (FCCC; see Cadman (Chap. 23), this volume) and the Convention on Biological Diversity (CBD); and states agreed to establish a new UN institution to oversee the implementation of Agenda 21, the Commission on Sustainable Development. While disappointment attended the failure to negotiate an international forestry agreement, the Global Forest Principles that substituted for it were considered a solid compromise to tackle deforestation and forest degradation under a new norm of sustainable forest management (Gale and Cadman 2014).

Building on UNCED's formulation of sustainable development as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs', analysts investigated the processes of weak and strong 'ecological modernisation' (Mol and Spaargaren 2000). The distinction depends on whether nature, conceptualised as a form of capital, is substitutable for other types of manufacturing, human and social capital. Different conceptions of sustainable development were possible because UNCED was silent on capital substitutability and agnostic regarding the form of state. While a general preference for 'market-led' development strategies implemented by liberal democratic states existed, countries with developmental states employing state-owned enterprises, government planning, and protectionism were not excluded. In short, as an 'essentially contested concept' capable of numerous, divergent meanings, the practice of sustainable development pivoted on whether it was framed within nationalist, liberal, or socialist political economy (Jacobs 1999; Connelly 2007).

Despite an emerging consensus in policy circles that sustainable development is compatible with weak ecological modernisation, a critical tradition has consistently called the approach's feasibility into question. One of the earliest and most trenchant critiques was Redclift's (1987), who argued that 'development' must be 'subjected to redefinition, since it is impossible for accumulation to take place within the global economic system we have inherited without unacceptable environmental costs. Sustainable development, if it to be an alternative to unsustainable development, should imply a break with the linear model of growth and accumulation that ultimately serves to undermine the planet's life support systems' (Redclift 1987, 4).

Such a break has yet to occur, however. IPE has contributed to this by aiming mostly to integrate nature into pre-existing frameworks based on established ways of thinking giving rise to forms of green mercantilism, liberal environmentalism, and eco-socialism. While vigorously disputing each other's conception of economic value, each approach conceives economic value as a priori definable, humanistic, and monistic (Gale 2018). Notably, liberal environmentalism treats economic value as synonymous with exchange value, employing cost-benefit analysis and contingent valuation to commensurate it in dollar terms. Following an analyses of conventional IPE responses, therefore, I outline a fourth approach, termed here 'sustainability governance', that builds on emerging consumption and production practices to develop a more integrated approach.

International Political Economy Approaches to Sustainability

A variety of typologies have been used to categorise IPE responses to the environment. Williams distinguishes realist, liberal, and Marxist perspectives, noting that all three adopt a 'technocentric and anthropocentric approach to natural resource use' (1996, 48). The first two, being grounded in positivism and empiricism, are insufficiently attentive to the need for theoretical innovation and to the actual transformations occurring on the ground. Williams also criticises both of these approaches for embracing environmental economics, which treats the 'economic' and the 'ecological' as discrete phenomena, arguing instead that 'economics and the environment are inseparable' and that 'the economy alters the environment and the environment in turn affects the economy' (Williams 1996, 56).

In their book *Paths to a Green World,* Clapp and Dauvergne (2005) distinguish between market liberalism, green socialism, bioenvironmentalism, and institutionalism. Market liberalism 'is grounded in neoclassical economics and scientific research' and promotes market-led economic growth and high per capita incomes (Clapp and Dauvergne 2005, 4). In contrast, green socialists see inequality and environmental degradation as fused, demonstrating a shared concern over 'inequality and the environmental consequences related to it' (Clapp and Dauvergne 2005, 12). These two approaches differ from bioenvironmentalism, which stresses 'the biological limits of the earth to support life' with a focus on 'limits to growth' and 'carrying capacity', and from environmental institutionalism which embraces 'many of the broad assumptions and arguments of market liberals' but stresses the need 'for stronger global institutions and norms as well as sufficient state and local capacity to constrain and direct the global political economy' (Clapp and Dauvergne 2005, xx).

To these IPE typologies can be added those used in the varieties of capitalism (VoC) approach outlined in Nölke's chapter ((Chap. 9), this volume). With a focus on the West, first-generation VoC analysts parsimoniously distinguished between liberal and coordinated market economies, the former mapping directly onto IPE's liberal paradigm and the latter onto a social-democratic version of its socialist approach. Initially not covered in the VoC literature was IPE's economic nationalist approach, but Nölke's state-permeated market economy (SME) addresses this gap by identifying how China and India differ from Britain and Germany in financial openness and capital controls. The VoC approach has been applied to understand differences in environmental policy and practices: Mikler (2007) highlights differences in the strategies of American, German, and Japanese automobile manufacturers that reflect the way they are regulated in their domestic economies. However, VoC's inductive approach to identifying varieties of capitalism means there is no equivalent to Clapp and Dauvergne's bioenvironmentalism and environmental institutionalism categories as neither of these are used by states to coordinate markets.

The account below builds on these typologies to assess recent developments in IPE and sustainability. To the conventional IPE categories of realism, liberalism, and Marxism, I add two others: an ecologism category similar to Clapp and Dauvergne's bioevironmentalist category and an emerging sustainability governance category that expands their category of environmental institutionalism to take account of emerging local, national, and global public, and especially private, governance of production and

consumption relations. I illustrate the implications of the latter approach by reviewing the trade-versus-environment debate in IPE theory and at the World Trade Organization (WTO).

Green Mercantilism

The core tenets of green mercantilism are grounded in IR Realism's concern over order/disorder and its ontological privileging of the state over other forms of social organisation (Williams 1996; Vogler 2011). Green mercantilists share IR Realism's broad understanding of the interstate system as characterised by anarchy where individual states must have enough power to ensure their own survival. Under anarchy, conflict will occur between states over scarce natural resources such as oil, potable water, and agricultural land. A focus of green mercantilists is on specific resource conflicts including Arctic and Antarctic oil supplies, water conflicts in the Middle East and Asia, and 'land grabbing' in Africa (e.g. Homer-Dixon 1991; Kugelman and Levenstein 2009). While green mercantilists are not alone in analysing such topics, what marks this perspective out from others is the view that states respond to them strategically rather than cooperatively.

Significant differences can be observed between green mercantilists and other perspectives with regard to international trade policy. Green mercantilists view the economic, political, and natural realms as fused, all three contributing to realising a state's 'productive powers' (List 1841) and enhancing its security. Consequently, a state's political, economic, and environmental policies should align, which may require states to defect from free trade regimes and embrace protectionism. Given this perspective, green mercantilists are able to explain, if not condone, why states like China limit the export of rare earth metals given the strategic importance of solar power and why, given the domestic security ramifications of limiting carbon emissions, signatories to the Paris Climate Agreement prefer voluntary Nationally Determined Contributions over mandatory targets.

Liberal Environmentalism

In contrast to the statist focus of green mercantilism, liberal environmentalism examines global environmental cooperation using the lens of regime theory (e.g. Young 1989; Haas et al. 1993). Several features of the international political economy explain why such environmental cooperation is necessary. First, national production many generate negative externalities as when

sulphur emissions from coal-fired generators deposit acid rain on neighbouring countries or when carbon emissions cause global warming and climate change. Second, open-access resources that lack clear public or private property rights as in high seas fisheries lead to a 'tragedy of the commons' (Hardin 1968), necessitating international agreements to regulate catch levels. Third, interstate political and economic rivalry may threaten critical earth systems creating momentum to cooperate as in the case of the Convention on the Conservation of Antarctic Marine Living Resources.

While liberal environmentalists recognise that markets fail and that state intervention to provide public goods and regulate negative externalities is required, they treat the free market as essential to sustainability and promote market-based solutions to environmental problems. A practical example is the promotion of emissions trading schemes to tackle climate change. Observing that the atmosphere is an open-access resource and overused by individuals and firms as a sink for carbon and other greenhouse gas emissions, the liberal solution is for governments to legislate cap-and-trade emissions trading schemes to limit the total amount of greenhouse gases (GHGs) a firm can release into the atmosphere (the cap element) and issue permits (the trade element) to enable companies to buy and sell pollution rights to meet firm-specific targets.

Eco-socialism

In contrast to green mercantilists and liberal environmentalists, eco-socialists seek to promote environmental justice via a critique of capitalism and by proposing socialist alternatives (e.g. O'Connor 1988: Burkett 2009; Foster et al. 2010). James O'Connor, for example, has identified a 'second contradiction of capitalism' in addition to a first contradiction between the 'forces' and 'relations' of production (O'Connor 1988). In conventional Marxist analysis, capitalism 'produces its own gravediggers' due to its inherent tendency to overproduction. In the drive to realise surplus value, competition forces capitalist businesses to over-produce, lowering prices and generating a realisation crisis. As businesses go bankrupt and unemployment increases, capitalists demand state intervention to bail them out, exposing the myth of the self-regulating market.

Likewise, O'Connor argues there is a second contradiction of capitalism between the forces and relations of production on one hand and the conditions of production on the other. Unlike the first contradiction, this is a crisis of 'underproduction' because capitalist firms, locked into competitive markets, under-invest in maintaining the physical conditions of capitalist

production—forests, fisheries, agricultural land, energy sources, and so forth. Capitalist businesses, struggling to realise as much surplus value as possible, appropriate natural resources and waste sinks at exchange values significantly lower than their use values. However, by failing to recognise and take action to conserve resources and limit pollution, capitalists again become their own gravediggers as natural resource depletion and the accumulation of toxic waste necessitates state regulation and planning that once again undermines the myth of the self-regulating market.

At the global level, eco-socialism has been influenced by Robert Cox's neo-Gramscian approach to IPE (1981). Building on Cox's distinction between 'problem solving' and 'critical theory', eco-socialists analyse how global capitalism generates ecological crises and injustice by supporting the neoliberal hegemonic order under *Pax Americana* (see DiMuzio and Dow (Chap. 34), this volume). From this perspective, many international institutions identified by liberal environmentalists as contributing to sustainable development are critically reinterpreted as driving the world towards ever-deeper unsustainability. Organisations like the World Bank, International Monetary Fund, and WTO are viewed as enhancing capitalism's capacity to exploit workers and the environment in the periphery of the world capitalist system. Eco-socialists champion counter-hegemonic forces such as the World Social Forum which protest capitalist globalisation at international economic and environmental summits and promote prefigurative, alternative, cooperative production systems (Carroll 2010).

Ecologism

Ecologism takes issue with the anthropocentrism underpinning green mercantilism, liberal environmentalism, and green socialism, claiming instead that nature is intrinsically valuable (e.g., Leopold 1949; Devall and Sessions 1985). The essential difference between these two views is captured in Aldo Leopold's 'land ethic':

> All ethics so far evolved rest upon a single premise: that the individual is a member of a community of interdependent parts… The land ethic simply enlarges the boundaries of the community to include soils, water, plants, and animals, or collectively: the land… In short, the land ethic changes the role of *Homo sapiens* from conqueror of the land-community to plain member and citizen of it. It implies respect for his fellow-members, and also respect for the community as such (Leopold 1949, 239–240).

Key ecological ideas of the 'land ethic' include a relational ontology, an extended concept of community, and an alternative understanding of value.

Ecologism's focus on an extended natural-cultural community has generated proposals that operate mainly at sub-state levels of analysis. Social ecologists like Murray Bookchin (1982) and deep ecologists like Arne Naess (2005) champion small-scale, community-based, self-governing, and self-sufficient political organisations, whereas Kirkpatrick Sale (1985) has argued for a bioregional approach linked to natural boundaries like watersheds and Daly and Cobb (1994) develop the idea of a national 'community of communities'. As a result of its community and regional focus, ecologism is usually not identified as an approach in IPE. In addition, it does not engage with the core issues of interest to IPE scholars such as international trade, investment, monetary aid, and development policy. From an IPE perspective, since no state is run by a government promoting policies based on ecologism, there is no point in engaging with it theoretically. This lack of engagement on both sides is a problem, however, since neither side understands each other's core conceptual categories or concerns.

Sustainability Governance

In his analysis of IPE and the environment, Williams (1996, 55–56) calls for a new theoretical approach based on neo-Gramscian political theory and ecological economics (Williams 1996, 55–56). Yet no such theory has emerged in the past two decades. In the interim, a great deal of practical and theoretical work in 'sustainability governance' has occurred, which bears on many core IPE issues including trade, investment, and monetary policy as well as the nature of the state and its relationship to MNCs and civil society organisations. In this section, I review the literature on 'sustainability governance' and illustrate its relevance to IPE as an emerging, alternative account of the sustainability challenge through an example of certified trade.

There are several good descriptions of the practice of sustainability governance in the literature at different levels of analysis. At the national level, Alperovitz (2014) provides excellent accounts of the US's social enterprise movement where 'people join together through some form of public, community, or employee-owned business to meet local needs and thereby regain

a measure of local economic democracy and control' (Alperovitz 2014, 195). The institutional forms employed include 'community development corporations, community development financial institutions, social enterprises, community land trusts, employee-owned enterprises, and cooperatives' (Alperovitz 2014, 195). To this list can be added a range of other forms of community-based organising such as the transition town, slow food, farmers' market, organic and permaculture agriculture, community-supported agricultural, community gardens, bioregional, community energy, op shops, and public transport movements. What these initiatives have in common is the reinvigoration of low-throughput community provisioning rather than a reliance on external actors.

It is a mistake, however, to conceptualise sustainability governance as exclusively community-based. Many participants exchange goods, services, and experiences with distant others using private governance systems to make them more rewarding, fairer, and more sustainable (Cashore et al. 2004; Gulbrandsen 2010; Cadman 2011; Gale and Haward 2011; Auld 2014). To ensure exchange meets these expectations, practitioners set standards backed by certification and labelling schemes to regulate the extraction, production, transportation, retail, and disposal of the inputs necessary to yield the goods and services demanded and consumed. Two examples of global standards organisations are Fairtrade International and the Forest Stewardship Council (FSC). Fairtrade International sets Fairtrade standards for its member organisations, and in 2015, the sales revenue of Fairtrade products, mainly coffee, cocoa, bananas, tea, fruit, and sugar, reached US$ 1 billion for the first time, up 14% over the previous year. FSC sets standards for the forest industry and has experienced similar growth with almost 200 million hectares of forest in 2017. A large number of other global standard organisations exist to regulate capture fisheries, farmed fisheries, sugar, palm oil, carpets and rug production, and more.

Sustainability Governance and Trade

How does IPE analyse this emerging practice of 'certified trade'? If IPE textbooks are any guide, the answer is to ignore it. Whereas there is a great deal of coverage of 'free trade' versus 'protectionism' and the role of the World Trade Organization in managing competing state interests, the rise in certified trade is rarely if ever analysed (but see Ervine and Fridell (2015) which includes a chapter on sustainable consumption). IPE's 'statist gaze' also limits its capacity to perceive certified trade arrangements which are mostly developed and

promoted by business and civil society organisations. In the technical trade literature, and in addition to expressing a certain disdain for certified trade's significance because product volumes and dollar sales are currently a mere fraction of global totals, analysts adopt the generalised presumption that certified trade preferences are really protectionist trade preferences in disguise, again diminishing any challenge it presents to mainstream theory and practice (Ehrlich 2010).

The subsumption of certified trade into the free trade versus protectionism debate is also evident at the WTO which has debated the protectionist potential of 'eco-labels' for over 20 years since they were placed on the agenda of the Committee on Trade and Environment (CTE) in 1996. As the number and reach of eco-labels and associated certification and labelling programmes has grown, delegates expressed increasing concern at their trade distorting nature. Mavroidis and Wolfe cite the 'now famous' 2007 complaint of the Saint Vincent and the Grenadines delegation against the GlobalG.A.P agricultural standard that 'the proliferation of standards developed by private interest groups without any reference to the SPS Agreement or consultation with national authorities is a matter of concern and presents numerous challenges to small vulnerable economies' (2017, 2). Noting that 'voluntary standards' can be de facto obligatory for small producers who are at risk of being locked out of global value chains if they fail to comply with requirements, these authors examine how the WTO should respond to such 'behind the border', potentially market-restrictive measures.

From a sustainability governance perspective, certified trade is neither free trade nor protectionist but expresses a desire to realise sustainability by ensuring one's market purchases, *whether domestic or international*, 'do no harm'. Building on the political consumption and ethical consumerism literatures (e.g. Stolle et al. 2005; Barnett et al. 2005), the approach recognises the existence of a segment of consumers who desire to go beyond basic, often compromised, national and international standards and discriminate between otherwise like products based on embodied and non-embodied process and production methods (ppms). Thus, instead of their being only two basic trade-related preferences, there are four, characterised by Ehrlich (2010, 1021) as 'free traders', 'fair traders', 'general protectionists', and 'economic protectionists'. Beyond free traders and general protectionists recognised by mainstream IPE, this typology identifies fair traders seeking certified products regardless of the country of origin and economic protectionists seeking domestic products regardless of process and production methods.

The implications of certified trade for conventional trade theory are significant. According to the theory of comparative advantage, countries should

specialise in the production of goods and services intensive in the factors in abundance, exchanging them for goods and services intensive in the factors they lack. It can be demonstrated that specialising in this way increases the total volume of goods in the system and thus 'wealth' measured either in terms of the aggregate volume of goods or their exchange value equivalent. There is a very important underlying proviso, however, which is that the use of the abundant factors is sustainable: that is, at a minimum, that the country's use of its renewable resources (forests, fisheries, and soils) does not undermine the capacity to regenerate, depletion of non-renewable resources (oil, rare earth metals, minerals) occurs at an optimal rate, animal welfare is safeguarded, and human rights are respected. To the extent that these presumptions do not hold any increased production of goods and services comes at a significant cost to environmental, social, and animal welfare.

A range of arguments are employed to rebut trade protectionist arguments, and these are also deployed against certified trade (Bhagwati 1993; Krugman 1997). An important argument in favour of free trade derives from the Environmental Kuznets' Curve (EKC), which purports to demonstrate that it does not matter if two countries initially diverge in their sustainability practices because trade, by promoting economic growth, leads to improved sustainability outcomes over time. This occurs because increased wealth shifts citizens' preferences in favour of the 'luxury good' of environmental protection while simultaneously enabling the increased tax revenue available to be deployed for abatement. Other identified positive effects of trade for sustainability are shifts from dirty to clean technologies, from manufacturing to services production, and from high to lower fertility rates. From this dynamic economic perspective, a poor country with less sustainable practices will automatically converge towards a rich country with more sustainable practices once it crosses some specific GDP per capita turning point.

However, the EKC argument is suspect given that empirical studies show that the posited effects vary from pollutant to pollutant, are weak to non-existent with regard to carbon dioxide and biodiversity loss, and may occur at turning points significantly higher than the modest ones initially estimated (Van Alstine and Neumayer 2008; Carson 2009; Lenzen et al. 2012). As a consequence of these results, those studying the EKC have become increasingly cautious in interpreting its meaning, placing renewed emphasis on politics and policy. Carson (2009, 20) concludes pessimistically that the 'belief in an autonomous EKC relationship engendered an unfounded optimism that growth by itself would be helpful for the environment. As a result, there was a lost decade or more during which environmental economists failed to focus on other potential driving forces behind changes in environmental quality

within a country'. Van Alstine and Neumayer (2008, 56) state that 'we cannot take for granted that LDCs will experience an increased demand for environmental regulations. We need to consider what mechanisms are needed to translate society's preferences into policy-making'.

Taking certified trade seriously as an alternative to free trade or protectionism highlights an overlooked area for policy intervention—direct preference shaping. A focus on preference shaping, however, raises many thorny questions concerning the factors influencing their formation (Jackson 2005) and the rights and freedoms of individuals (Thaler and Sunstein 2003). Thaler and Sunstein (2003) reconcile the latter tension in their 'libertarian paternalism' approach to policy and the 'nudge agenda' it has given rise to. Treating individuals as having potentially misguided preferences due to a range of cognitive biases (e.g. myside bias, present bias, confirmation bias) in making decisions concerning superannuation, diet, and energy use, these authors argue in favour of altering default settings to encourage better decisions. Thus, given it is in society's interests that people donate their organs at death, opt-out not opt-in organ donations schemes should be set up since most people never get around to signing the required paperwork.

Thaler and Sunstein's approach fails to fully recognise the extent to which the now vast literature on the biological, behavioural, sociological, and cultural bases of values, attitudes, beliefs, and preferences undermines conventional notions of human rationality upon which a great deal of IPE thinking is based including, of course, liberal environmentalism's rational utility maximising individual. Pushed further, Stanovich (2009) identifies two major deficiencies: 'mindware gaps' and 'mindware contamination'. Mindware gaps are a product of the kind of biases identified by Thaler and Sunstein, whereas mindware contamination is more insidious and due to religious, mystical, and magical thinking which explicitly forbids questioning by 'promising rewards for unquestioning faith in the memeplex' (Stanovich 2009, 76). These ideas are taken even further by Gale (2018), who argues that the new literature on human preference formation necessitates a complete rethinking of aggregative notions of consumer and political sovereignty and necessitates a shift to more deliberative forms of economic and political valuation (Martinez-Alier et al. 1998; Spash 2007).

Conclusion

In this chapter, I have argued that IPE continues to theorise sustainability from within mainstream perspectives, employing well-developed modernist constructs such as the unitary state, the rational individual, and a singular

capitalist trajectory. While there are now 'green' versions of realism, liberalism, and socialism, these approaches have overlooked the actually existing political economy of sustainability that is emergent within the interstices of a disintegrating neoliberal global capitalist world order. The only approach to take this emerging political economy of sustainability seriously has been the sustainability governance approach due to its focus on certified trade which it distinguishes from free trade and protectionism alike. However, more research is required on this sustainability governance approach and especially the implications of the new biological, social, cognitive, and cultural literatures for the contingency and lack of reflexivity of individual preference formation. If aggregating non-reflective and likely erroneous individual preferences into group preferences no longer tells us much about what people want economically and politically, then much greater attention needs to be paid to alternative theories of the democratic than IPE has done heretofore.

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33

Natural Resources

Jewellord Nem Singh

Introduction

This chapter is about the place of strategic natural resources—oil, gas, mining, export crops, and unconventional energy—in development strategies of middle-income countries. It probes into the implications of the rise of China as a global economic behemoth for the fate of commodity exporters. Looking at the world's leading resource-producing region, Latin America, I argue that the domestic response to China's demands for natural resources is the construction of a state-led development strategy centred around *resource nationalism*. This policy paradigm marks a significant departure from the region's political economy model consolidated in the 1980s and 1990s, namely neoliberalism. In so doing, China has opened new possibilities for Latin American states to treat natural resources as factor endowments as opposed to export commodities in world trade, paving the way for the emergence of innovative mining and energy policies linked to industrialization. However, the success of resource-based industrialization in middle-income economies has thus far been limited to maximizing rent capture and less focussed on the productive use of natural capital assets that could facilitate long-run economic development.

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In making this argument, the chapter sets the context often overlooked by the literature on resource politics: that prior to the commodity boom (2003–2008 and then 2009–2013), which spurred extraordinary growth rates in Africa and Latin America, neoliberal reforms were implemented partially or fully amidst low commodity prices and a steady decline in state-led models of governance (Campbell 2009; Nem Singh and Bourgouin 2013). Driven by external pressures for reforms to address debt mismanagement and economic crisis brought forth by years of state intervention, mineral-dependent economies promoted the privatization of state-owned enterprises, codification of concessions grant contracts in mining legislation, and the opening and deregulation of commodity markets. However, as commodity prices began to rise in 2003, policymakers re-opened the debate as regards to how to effectively tax the mining sector and the need for a long-term productive strategy based on domestic transfer of technology and capital ownership (Di John 2011). In other words, the China-induced boom created an important policy space which enabled developing governments to go beyond traditional export-oriented commodity production.

The chapter is structured as follows. Firstly, I revisit the resource curse and rentier state models, arguing that we need to pay attention to historical contexts and institutional structures to overcome pessimistic accounts of resource-led growth. Secondly, I discuss the rise of China and its implications for natural resource governance as an important context for the domestic response towards the commodity boom. And, thirdly, drawing from the Latin American region, I explain what prompted states to adopt resource nationalism and the extent to which this development strategy worked in the region.

Beyond the Resource Curse

Most accounts on the natural resources-development debate focus on resource curse and rentier state models. According to these theories, increasing dependence on natural resources for exports and revenues will yield to slower economic growth, higher propensity for corruption and rent-seeking, and makes resource economies more prone to political violence (Beblawi and Luciani 2016; Collier and Hauffler 2004; Sach and Warner 1999). In a recent assessment, Gochberg and Menaldo (2016: 505) suggest that 'precious metals and hydrocarbons have not translated, as might be expected, into strong economic growth, increased public spending, or better political institutions. Nations with large resource export sectors have instead been associated with stagnant

growth, corruption and patronage, authoritarianism, and violent conflict'. The findings point to the key features of extractives sector as the underlying reason for their dismal economic performance, especially when compared to high-growth state-guided regimes in East Asia—most of which are characteristically resource poor and dependent on export promotion of manufactured goods (Amsden 2001, 2007; Nem Singh and Ovadia 2018).

The extractive industries are characterized by high capital concentration, high wage but low demand for labour, and technological intensity for production—all of which make it challenging for developing countries that historically failed to inculcate entrepreneurship and spur private sector growth. Natural resources are also cyclically prone to windfall booms and busts, making the source of government revenues equally volatile. In terms of productive capacity, the Prebisch-Singer hypothesis stipulates that because the prices of commodity goods decline in the long term and that the terms of trade between primary producers and manufacturers are skewed against the former, it is not advisable for states to promote commodity specialization and instead focus on export diversification and gradual production of industrial goods (Prebisch 1950; Singer 1950). Finally, the exploration, extraction, and production of oil, gas, mining, and unconventional energy take place in hard-to-reach geographical locations, under hazardous conditions for the personnel involved, and with profound effects on residing communities and the natural environment.

The commodity super-cycle brought extraordinary high rents into state coffers and the balance sheets of transnational mining firms. However, the extent to which an extractivist strategy yields sustainable economic growth remains a question. This policy dilemma, however, is not entirely novel. As world systems theorists posit, poor but resource-rich countries were integrated in global markets through political violence and co-optation—both of which are key features of colonialism and imperialism (Bunker 1985; Barham et al. 1994; Carmody 2013, 2016). In a recent iteration of this argument, 'new extractivism' that deepens and extends the commodification of nature has failed to break away from uneven development despite the shifting power dynamics from the West to the East (Petras and Veltmeyer 2014). As emerging powers influence world demands for commodities in their quest to catch up in the industrialization race, the historically uneven relations between host governments and resource-seeking firms and trade-dominant governments have remained the same. In other words, the developing world has remained locked in their principal role in the global economy as export commodity producers to support the further industrialization of the West and

resource-poor, middle-income countries. This leaves export producers limited developmental space and a structural disadvantage to pursue resource-based industrialization (Wallerstein 1974; Cardoso and Faletto 1979; Moore 2010a, b). In brief, the literature on the political economy of resource-led development has been limited to discussions around dependency and neo-colonial forms of trade relations.

As the longevity of the commodity boom became apparent, new insights emerged in response to growing criticisms against neoliberal reforms in the export sector as well as explicit efforts by resource producers to experiment with mercantilist ideas of state-initiated resource-based development. To start, Brautigam (2002) asserted as early as pre-boom years that developing country states must invest in building effective states through new regulatory arrangements aimed at enhancing the revenue-raising capabilities of developing countries. Effective mineral policies, then, are a function of the relative capacity of the state to address the imbalance in negotiating contracts, holding transnational firms liable and accountable to their actions and promoting public policies—especially fiscal and macro-economic management—that address the resource curse effects (Auty 2001, 1993; Barbier 2005, 2003; Easterly and Levine 2003; Orihuela 2013; Menaldo 2015, 2016).

These discussions underline the question of institutional change in resource economies. As Kurtz (2013) suggests, institutional reforms and state building are historically not incongruent with long-run resource-led growth. More recently, governments have designed popular social welfare policies and conditional cash transfer (CCTs) programmes while also maintaining some degree of financial stability (Menaldo 2015). This approach proved effective in reducing poverty and minimizing social conflicts related to resource exploitation. Beyond linking rent capture with welfare provision, the role of ownership structures—especially public ownership—also plays a key role in increasing government revenues and enhancing the productive capacity of the domestic private sector and national oil companies (NOCs) in oil-exporting economies (Jones and Weinthal 2010). The analytical purchase of paying close attention to domestic politics and institutional structures is clear: political economy research is able to move forward by specifying *how* and *which* institutions matter and *when* political institutions are crafted to take advantage of a commodity boom. Nevertheless, the focus on domestic politics needs to be linked with the changing international context. States exercise their agency upon an understanding of how external factors open—or oftentimes constrain—opportunities for them. Hence, the next section focusses on the most important international context in the resource sector—the rise of China and its insatiable demand for natural resources.

The China Boom and the Changing Geographies of Resource Extraction

My argument is that the rise of China and its unprecedented growth rates are salient to understanding how resource producers responded to the changing global political economy (Breslin 2013; Nolan 2014). Between 1980 and 2015, China's real GDP grew by an average of 9.6% annually and its GDP *per capita* soared from US$ 200 to US$ 8000 (Huang 2016: 315). As the second largest economy in the world, China outshone other countries both as target and as acquirer of mergers and acquisitions in metal mining. Chinese firms acquired three of the top ten deals; its presence in molybdenum accounts for US$ 4.2 billion (nearly 10% of the overall deals in the sector), which includes the acquisition of Freeport's Tenke Fungurume mine in the Democratic Republic of Congo and Anglo American's niobium and phosphate assets in Brazil (PWC 2017: 5). Crucially, as Table 33.1 details, large-scale consolidation among Chinese domestic producers took place in the steel, coal, and aluminium sectors. In the third quarter of 2017 alone, announced acquisitions were valued at US$ 5.4 billion, all of which are taking place in Asia and Oceania. Chinese domestic capital is the principal driver of the aggregate increase in capital raising in the metal mining sector.[1] The process of consolidating market power takes place through the direct access of domestic firms to state-owned Chinese banks. As a stimulus to slowing industrial growth, the government also pumped liquidity into the market through corporate bond purchases and lower interest rates for firms (Pettis 2013). To sustain China's economic rise, Hu Jintao promoted the One Belt and Road Initiative, thereby, merging China's demands for resources with its interest in building extended trade relations across the world (Huang 2016). Aimed at constructing a grand strategy to promote China's national security interest, the approach mobilizes various sources of Chinese finance across Asia, Europe, and Africa in order to build regional cooperation and development (Cheng 2016). While the state-led industrial strategy of controlling and repressing finance bears significant costs (Ho Fung 2008, 2013), this has worked thus far in sustaining its growth rate until its slowdown from 2012 onwards.

However, commodity exporters are now being affected negatively as China increasingly enters the supply chain as a producer of processed minerals and value-added commodities. China's industrial growth and rising consumption

[1] If we exclude the Chinese deals, capital raised in mining actually declined by 16% in 2016—an outcome of the grinding recovery in major markets of Europe, North America, and Australia.

Table 33.1 Major deals in metal mining, 2016 and 2017

Top 10 metal deals in 2017					
Target name	Target nation	Acquirer name	Acquirer nation	Deal value (US$ million)	Category
ThyssenKrupp AG-European Steel Business	Germany	Tata Steel Europe Ltd.—European Business Steel	United Kingdom	Undisclosed	Steel
National Titanium Dioxide Co. Ltd.—Titanium Dioxide Business	Saudi Arabia	Tronox Ltd.	United States	2.215	Other metals
Ilva SpA	Italy	AM Investco Italy Srl	Italy	2.031	Steel
Thyssenkrupp Slab International BV	Brazil	Ternmium SA	Argentina	1.805	Steel
Sapa AS	Norway	Hydro Aluminum AS	Norway	1.498	Aluminium
Dongbei Special Steel Group Co. Ltd.	China	Investor Group	China	842	Steel
Boasteel Group Xinjiang Bayi Iron & Steel Ltd.—Assets	China	Xinjiang Ba Yi Iron & Steel Co. Ltd.	China	664	Steel
Nanjing Nangang Industry Development Co. Ltd.	China	Investor Group	China	546	Steel
Mitsui & Co. Ltd.—Steel Business	Japan	Nippon Steel & Sumikin Bussan Corp.	Japan	534	Other metals
United Company Rusal PLC	Russia	Zonoville Investments Ltd.	Cyprus	504	Aluminium

(*continued*)

Table 33.1 (continued)

Top 10 metal deals in 2016					
Target name	Target nation	Acquirer name	Acquirer nation	Deal value (US$ million)	Category
Liaoning Zhongwang Group Co. Ltd.	China	CRED Holding Co. Ltd.	China	4656	Aluminium
Wuhan Iron & Steel Co. Ltd.	China	Baoshan Iron & Steel Co. Ltd.	China	4157	Steel
Iron Mining International (Mongolia) Ltd.	Mongolia	Coral Pearl International Ltd.	China	3024	Iron ore
Iron Mining International (Mongolia) Ltd.	Mongolia	Coral Pearl International Ltd.	China	2492	Iron ore
Ultimate Century Investments Ltd.	China	Shougang Holding Bonds Ltd.	China	2456	Steel
Aleris Corp.	United States	Zhongwang USA LLC	United States	2330	Other metals
Shandong Iron & Steel Co. Ltd.—Assets	China	Shandong Iron & Steel Group Jigang Plate Co. Ltd.	China	2313	Steel
Simfer SA	Guinea	Chinalco Mining Corp. International	China	1300	Iron ore
TF Holdings Ltd.	Dem. Rep. Congo	Bohai Harvest RST Shanghai Equity Investment Fund Management Co. Ltd.	China	1187	Steel
Solb Misr Co.	Egypt	National Service Projects Organization	Egypt	1135	Steel

Source: EY (2017: 5) (Adapted)

of iron ore, base metals, and other commodities have been accompanied with in-country processing activities. On the one hand, China increased its iron ore imports from 70 million metric tons—or 14.4% of global imports—in 2000 up to 932 million metric tons in 2015—or 68.4% of global imports (ECLAC 2016: 81). China surpassed the major importers of iron ore—Korea,

Germany, and Japan—and became the principal driver of world demand for iron. On the other hand, thanks to rapid technological catch-up China is now the biggest producer of iron ore, surpassing its main sources of iron—Brazil and Australia.

China has successfully exploited natural resources imported from resource-rich countries and has pushed the boundaries of technology in order to construct large-scale plants to refine, process, and ultimately produce higher-value metal minerals. Although not at the same level as the USA, China's improving technological sophistication combined with its control over global manufacturing has dramatically strengthened Chinese firms in the global minerals industry. In aluminium manufactures, China's export share increased from 5.4% in 2004 to 13.4% in 2014, overtaking Germany as a key exporter of processed aluminium, and these aluminium exports all go to the industrialized Asian countries (49.2%), the European Union (14.3%), and the USA (12.7%). This pattern is reflected in other commodities, such as iron ore, copper, and bauxite, which indicates the changing technological frontiers of commodity extraction and production. China's industrial strategy appears to replicate—if not overcome—the success of the USA, which effectively used its resource abundance by developing technologies to extract minerals and using resources to support its industrial/manufacturing growth and economic expansion (Wright and Czelusta 2007) (Fig. 33.1).

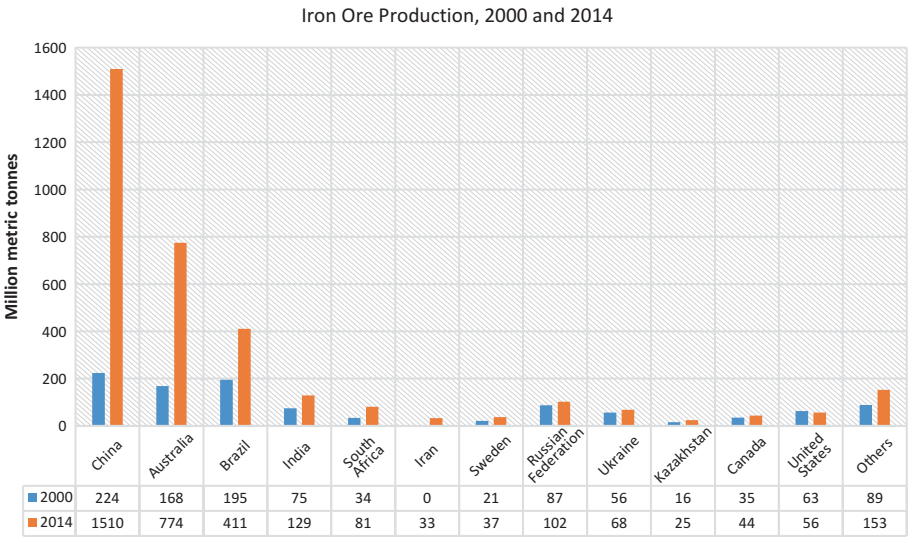

Fig. 33.1 Key iron producers in the world economy. (Source: ECLAC (2016: 85) (Adapted))

The rise of China has three key implications for resource-producing countries. Firstly, Chinese FDI and foreign assistance are resource and market seeking, and therefore, its relationship with resource producers is inherently based on mutual benefits (at least at the beginning). China gets access to natural resources while commodity exporters can export commodities to solve their fiscal problems of indebtedness and need for investments. One interpretation is that increasing Chinese market participation leads to renewed South-South cooperation that enables developing countries to free themselves from conditionalities of structural adjustment imposed by international financial institutions. However, some also note the return of dependent development, where neo-colonial forms of inter-state cooperation—especially China-Africa and China-Latin America relations—predominate Chinese aid and development assistance policies (Brautigam 2009; Carmody and Taylor 2010; Gallagher and Porzecanski 2010; Brautigam 2013; Carmody and Kragelund 2016; Gallagher 2016).

Secondly, growing trade, finance, and investment from China meant that the fate of resource-producing countries is also tied to the sustainability of Chinese economic growth. Taking Latin America and the Caribbean (LAC) as an example, in 2017, China purchased about one-fifth of all extractive exports from the region and this sector comprises more than 50% of LAC exports to China. Importantly, Chinese investment and finance are principally concentrated in developing LAC's mining and energy resources (Ray and Gallagher 2017: 1). The 'China boom' has begun to cool off since 2013, which meant that regional exports to China have experienced stagnant growth while LAC imports of Chinese goods have also fallen over the past five years. However, LAC appears to take more damage because the slump in mineral and food prices reduces the purchasing power of commodity-producing countries vis-à-vis China (see Mohan and Urban (Chap. 16), this volume).

Nevertheless, it is worth noting that unlike Western multinationals, the Chinese government and its state-owned enterprises (SOEs) have expressed interest in making upstream and downstream investments to expand the supply chain in Latin America. The desire of a sustainable trade relationship between China and LAC can only be understood if we examine the rapidly growing importance of the region. Economic Commission for Latin America and the Caribbean (ECLAC) (2016: 101) notes that the global supply of metal mining, determined in terms of percentage of reserves, is still significantly concentrated in LAC, notably 66% of lithium, 47% of copper, 45% of silver, 25% of tin, 23% of bauxite, 23% of nickel, and 14% of iron ore (ECLAC 2016: 101). To neutralize accusations of resource imperialism, China has identified six strategic partners in the region, namely Brazil (1993), Venezuela (2001), Argentina (2004), Peru (2008), Chile (2012), and Ecuador (2015) (Wise 2018: 205). These countries have considerable minerals, oil, and gas reserves. The largest

M&As was the purchase of the 15% stake of Brazil's Companhia Brasileira de Metalurgie e Mineração for US$ 2 billion, granting the group of five Chinese SOEs access to rare-earth minerals in Brazil. In Peru, Chinese mining firms operate in at least eight mining projects, including an open pit mine larger than New York City's Central Park (Gallagher 2016: 55–56).

Finally, and related to the point earlier, deepening extractivist strategies in Latin America and elsewhere is consequential to their relative capacity to catch up and industrialize their own national economies. It has been widely noted that LAC has suffered from deindustrialization, especially regional manufacturing powerhouses like Argentina, Brazil, and Mexico. Traditional mining producers like Bolivia, Ecuador, Chile, and Venezuela have also increased their dependence on natural resources for exports and state revenues (Jenkins et al. 2008; Jenkins and Dussel Peter 2009; Gallagher and Porzecanski 2010). In other words, the resource boom has created incentives for national governments towards commodity specialization at the detriment of the manufacturing and agricultural sectors—both of which have experienced declines in their contribution to broad-based development due to the structural effects of the intensification of resource-based economic activities (Castillo and Martins 2016; Jenkins 2016).

Resource Nationalism as a Domestic Response to the China Boom

The argument that China's rise has important domestic consequences is a conspicuous observation in Latin America's recent turn towards resource nationalism. As Wilson (2015) defines it, resource nationalism refers to policy changes in the ownership structure of the industry, the property rights and operations of private capital vis-à-vis public enterprises, and the capacity of the state to capture natural resource rents. These policy measures are domestic responses to the changed international context (high commodity prices and apparent longevity in Chinese demand for resources) as well as a reflection of growing discontentment against a decade-long process of market liberalization and privatization. In the 1990s, policymakers and international financial institutions were convinced that a larger share of private sector participation would reverse the financial distress caused by decades of state intervention in mining and energy. The desire to increase private production could only be achieved through a concession contracts arrangement, tax relief, and discount on capital inputs and reduced scope of operation and market control for national companies. Crucially, neoliberalism pushed states to put industrial policymaking at the back burner and focus on fiscal discipline and raising

investment in the sector. The role of the state in development, then, shifted from a *direct participant* towards a *regulator of market competition*.

Mining and energy reforms differed quite significantly from each other. Most state-owned mining companies were privatized and sold at bargain prices, with the exception of Chile's Codelco, while privatization in the oil and gas sector was slower and ultimately less successful. For national security and strategic economic reasons, national oil companies were restructured and reorganized but not sold to private oil capital (Nem Singh and Chen 2018; Victor et al. 2011). In Mexico, where Pemex was a key source of state revenues that sustained rent-seeking and distributive politics, energy reforms did not come until 2014 (Ramírez-Cendrero and Paz 2017). In Brazil, Petrobras has held an important place in national political debates over how developmental states are to shape strategic resources like oil and gas, making privatization of Petrobras despite a massive corruption scandal politically impossible (Massi and Nem Singh 2018). Indeed, Petrobras remains an exemplar for poor, resource-rich countries on 'how to do natural resource-based industrialization' by emphasizing the role of sectoral linkages and local content policies in developing a competitive domestic supply chain (Lima de Oliviera 2016: 1; Priest 2016). With the exception of Venezuela, oil production in key Latin American countries has steadily increased over time (see Fig. 33.2). Put sim-

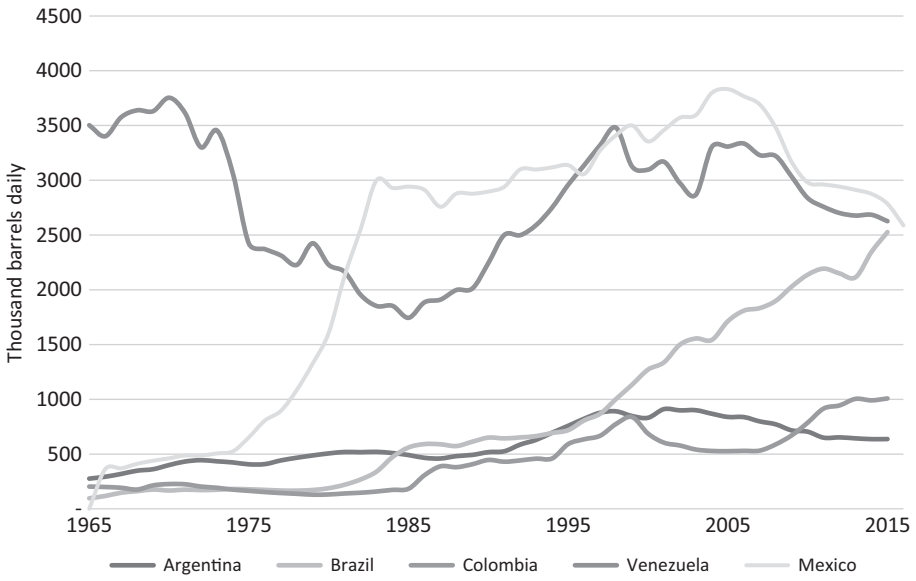

Fig. 33.2 Oil production of selected Latin American countries, 1965–2015. (Source: BP Statistical Review of World Energy (2016) (Adapted))

ply, NOCs simultaneously seek to promote energy security and support ambitious industrialization programmes (de Oliviera 2011; Victor et al. 2011).

From 2003 onwards, Latin America witnessed the rise of resource nationalism under Leftist governments. However, as noted by Haslam and Heidrich (2016), there are many forms of resource nationalism depending on the degree of policy change in ownership structures and level of private sector participation. Nonetheless, South American governments implemented taxation and fiscal measures to increase the revenue intake of the state while also experimenting on how to finance social and industrial policy through natural resources. Different types of fiscal measures ranging from income and corporate taxes, royalties, to other forms of special fees were charged to companies extracting minerals and oil. Latin American states converted the commodity boom either through direct public receipt of revenues by way of taxation or via SOEs and majority shareholding in companies. The most successful in maximizing the windfall profits are those that managed to strike a balance between capturing rents and guaranteeing tax stability in the sector. In other words, countries like Brazil and Chile have retained their approach of undertaking moderate tax reforms such that companies have remained profitable despite raising the taxes and royalties (Nem Singh 2010, 2014).

While almost all Latin American countries implemented significant changes in their tax regimes, Leftist governments have gone further by increasing taxes alongside renegotiating existing contracts with mining firms and strengthening the role of public enterprises, principally as a means to capture resource rents. As a result of wider policy latitude and high commodity prices, South American governments raised tax rates and imposed new royalties in the commodities sector while taming resistance and protests from business. Given the historical tensions between states and foreign capital in Latin America, renegotiating taxation became a popular move for Leftist governments to indicate growing political control over natural resources. Even in pro-business countries notably Peru and Chile, new royalty legislations and special taxes were put in place to take advantage of the commodity boom. In Chile, the Left-Centre *Concertación* government in 2005 imposed an additional 5% royalty tax to mining operations exceeding 50,000 metric tons. The royalty law, justified in part to finance innovation and research in the copper industry, sought for the creation of the *Consejo Nacional de Inovación para la Competetividad* (National Council of Innovation for Competitiveness). Higher intake of mineral rents became a popular move to finance innovative science projects in support of economic diversification of the economy (Nem Singh 2010).

The role Chinese finance in the sector has also deepened as a consequence of resource nationalism. With the history of debt default by Argentina, Ecuador,

and Venezuela, Latin American governments were shunned from conventional capital markets. Through the oil-for-loan programmes and credit lines extended by China, governments found new sources of finance for infrastructure, mining, and energy projects and had discretionary budget spending over the loans. For instance, Ecuador secured US$ 10 billion loan and lines of credits from China, whereby its national oil company Petro Ecuador signed a contract to sell Chinese oil companies hundreds of thousands of barrels of oil per day until the loan had been paid back (Gallagher 2016: 75). This has become an attractive option for Latin America because China's principle of not imposing political conditions significantly departs from conditional loans practised by conventional development banks.[2] Leftist governments deserve praise for capturing some of the windfall profits of the commodity boom—certainly in comparison to its African counterparts—and using those resources for social development, leading to remarkable progress in reducing poverty. In other words, the bundle of policies aimed at fiscal maximization and reliance on Chinese finance for alternative sources of loans and lines of credits were crucial policy options in pursuing resource nationalism. Overall, resource nationalism as a domestic response in Latin America was successful at capturing rents for reinvestment in the economy. But as the next section details, this policy paradigm bears several limitations that export producers in other regions also faced.

The Elusive Goal of Structural Transformation in Latin America

The Chinese boom coincided with renewed state activism as Latin American governments refocussed their efforts to capture more natural resource rents and then used this to finance industrial policy and sectoral development. As a cure to the resource curse, windfall reinvestments towards industry, innovation, and education can keep manufacturing and tradable commodities competitive and build new industries as economic expansion facilitated by global demands for exports continues. However, Latin America's record has been lacklustre when it comes to productive investments of resource rents. While export earnings facilitated poverty reduction and social development in the

[2] It should be noted that all loans and credits are given at commercial rates, and therefore, China's policy banks behave in a fairly similar manner to other development finance institutions, such as the World Bank's International Bank for Reconstruction and Development (IBRD), the Inter-American Development Bank, and other export-import banks (Brautigam 2009; Gallagher 2016; Gallagher et al. 2012).

Table 33.2 Gross fixed capital formation as % of GDP in Latin America and Asia

Gross fixed capital formation as a % of GDP, 1990–2014					
Country	1990	2000	2010	2014	Average gross fixed capital formation
Argentina	14.0	16.2	16.7	16.1	16.9
Brazil	20.7	18.3	20.5	20.2	19.0
Chile	23.7	20.2	21.0	23.0	22.6
Mexico	17.88	20.90	21.13	20.99	20.15
Peru	16.2	19.7	23.5	24.5	20.6
Latin America & Caribbean	**18.5**	**18.8**	**18.6**	**18.6**	**20.9**
China	24.6	33.4	45.0	45.0	37.6
South Korea	34.4	31.6	30.5	29.2	31.4
Malaysia	33.0	25.3	22.4	26.0	28.4
Indonesia	30.6	19.9	31.0	32.6	26.9
Philippines	23.1	22.1	20.5	20.6	21.2
Thailand	40.4	21.6	24.0	24.8	29.1
Vietnam	..	25.6	32.6	23.8	28.1

Source: World Development Indicators (updated March 23, 2017)

region, government policy on capital reinvestments fell short in pursuing structural transformation away from commodity-based production. In Table 33.2, it is clear that Latin America's gross fixed capital formation as a percentage of GDP—an important measure of capital formation—barely grew between 1990s and 2000s. Manufacturing powerhouses like Argentina, Brazil, and Mexico spent an average of 16–20% of their GDP, which is dwarfed by China (37.6%), South Korea (31.4%), and Indonesia (26.9%). Even using a lower threshold for comparison, Southeast Asian economies which are noted for their FDI-dependent, agrarian economies still outspent their Latin American counterparts. Chile, surprisingly, remains the only country which emphasized capital reinvestment in the region. Gallagher (2016: 113) contextualizes this policy trend more vividly: Latin America reinvested 19.6% to their GDP during the China boom (2003–2013), whereas from 1980 to 2002, investment averaged 18.8%. In other words, export diversification and technological upgrading failed to take root during the commodity boom. Put simply, resource-poor East Asian countries managed to catch up through their developmental state models while resource-rich Latin America have considerably fallen behind the industrialization race.

What explains the policy oversight of Latin American governments? For one, the re-taxation of the oil, gas, and mining industry on its own does not guarantee better, more effective allocation of rents. As Gallagher (2016: 9) argues, 'Latin American states unfortunately squandered the opportunity to escape the resource curse… [while] Norway has navigated the curse by parking windfall profits into special funds to be reinvested into export competi-

tiveness, financial stability, environmental protection, and long-run growth… fiscal revenue did not increase in proportion to windfall profits… investment in the region [remained] low overall. Latin Americans invested 20% of their GDP on average, compared to China's 40% per year over the past 30 years.' For ECLAC (2013), the rise in windfall profits did not lead to proportionate improvements in revenue collection, meaning that states did not capture enough tax payments and royalty fees as a result of the limited capabilities of tax authorities in the region. Importantly, governments failed both to spend mineral wealth productively and to save them for stabilization and intergenerational equity. While major oil-exporting states like Norway, United Arab Emirates, and Saudi Arabia have set up sovereign wealth funds as a strategy to reduce the impacts of commodity price volatility, natural resource funds have often been a source of policy contention among Latin American governments given the huge infrastructural gap and investment needs of the region (Nem Singh 2015; see also Xu (Chap. 27), this volume). Ironically, as pointed out earlier, governments still failed to invest their mineral wealth efficiently despite the annual infrastructure gap of 6.2% in the region (Gallagher 2016: 154). In practice, this means going beyond railways connecting enclave cities and ports for resource extraction but incorporating various forms of infrastructure that would benefit different sectors of the economy. So while resource nationalism enabled policymakers to increase the revenues being captured through taxation reforms, relatively little effort was exerted to improve the technocratic and professional capability of state agencies, leading to negligible reinvestments of export earnings into infrastructure, innovation, and education.

The second reason why Latin America failed to achieve structural transformation stems from the complex challenge of industrial development and the lack of competitiveness of manufacturing in the region vis-à-vis China.[3] For one, financing industrial policy bears huge risks and costs that some governments are unable to sustain in the long run. This involves recognizing a middle ground between Chinese-style state intervention and market-driven Washington Consensus policies. To build effective institutions means embedding the private sector in a way that supports and encourages domestic firms to work together with public agencies. But apart from Brazil, Latin American governments have often been poor in choosing winners and losers and designing sectoral policies to support innovation and national industrial growth. To

[3] Furthermore, China likewise has an immense competitive advantage over how to price its manufacturing products and its economies of scale, which contributes to the inability of Latin American exports to compete with China. Thanks to Alvin Camba for pointing this out.

put it simply, 'getting the political economy right… means… seeking the private sector [to] identify where government programmes go wrong… and [recognizing that] the government role is to maximize the input of national talent and capabilities through strategic public-private alliances' (Gallagher 2016: 163; see also Devlin and Moguillansky 2012). To this extent, intermediate institutions such as coordination councils, industry associations, and informal channels of communications between public and private actors are beginning to play a critical role in resolving information asymmetry and in discussing strategic government support towards the private sector.

Moving forward, as the East Asian industrialization experience teaches us, innovation systems and public-private coordination cannot be manufactured through blueprints and institutional designs; rather, they are by-products of institutional learning, previous histories of industrial policymaking, and idiosyncratic national contexts upon which state-market relations are embedded (Amsden 2001, 2007; Brooks and Kurtz 2016). If Latin America is to achieve export diversification and structural transformation, national industrialization will require policies that complement and go beyond resource-growth policies focused on maximizing and reinvesting natural resource revenues. More broadly, complementary strategies and institutions need to be carefully studied and experimented if Latin America is to overcome its historical role as a primary raw material provider to advanced economies of the West and rapidly industrializing economies of the East.

Conclusions

This chapter examines the politics of natural resource-led development and the challenges of industrial policymaking in Latin America. By looking into the natural resource-development dilemma, it provides an overview of the complexity of state-market relations and the role of global context and international factors in shaping domestic economic policy. While resource nationalism re-emerged as a governance framework for elites to justify greater state control and ownership of strategic oil, gas, and mining sectors, it has failed to establish the foundations of structural transformation beyond intensive extraction of resources. Resource nationalism became a template for greater state control over strategic industries, enabling elites to mobilize the bureaucracy to capture and maximize windfall profits; it failed to generate institutional reforms necessary for long-term transformation of mineral wealth into productive assets.

As the commodity boom draws to a close, there are important lessons for those interested in the political economy of development in extractive economies. Firstly, the developmental space for policy experimentation has now effectively narrowed as commodity prices slump and economies enter into an

uncertain period of bust. Secondly, Latin American governments have failed to improve the productive capacity of their domestic firms and state-owned enterprises. One only needs to look at Brazil's Petrobras as an emblematic case of politicization of SOEs and the limits of corporate governance reforms as a means to achieve sectoral development. What we therefore find are multiple and uncertain pathways towards resource-led development, which are oftentimes shaped by political legacies and path dependence rather than dichotomous governance models (state vs. market models) often described by those who observed the shift of Latin America to the Left. Overall, analysing resource governance provides a nuanced, more complex account of governance in South America and beyond that other regions can learn from.

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34

Carbon Capitalism and World Order

Tim Di Muzio and Matt Dow

Introduction

This chapter offers an overview of how mainstream theories in International Relations (IR) and International Political Economy (IPE) have treated the question of energy in the international and introduces our own novel argument from the critical political economy perspective of capital as power. Specifically, we want to argue three major points. First, we contend that traditional theories in IR/IPE have an inadequate understanding of the intimate relationship between fossil fuel energy and the emergence and development of global capitalism and a relatively liberal world order. Second, we argue that the capital as power approach to global political economy with its focus on capitalization and ownership is a more illuminating perspective than its theoretical rivals for reasons we unpack below. Our third argument is that that the source and supply of world energy as well as energy systems more broadly are just as foundational as conflict and war, the state and society, and labour and capital in the making and remaking of the capitalist world order. Indeed, as Di Muzio (2015) has suggested, energy, capitalism, and the social reproduction of the world order should be understood as interconnected and theoretically and practically inseparable. In other words, it would be difficult to

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discuss modern capitalism (as many theorists do) without an appreciation of the non-renewable fossil fuel energy which allows for accumulation and economic growth. The same, we contend, goes for social reproduction which we define as the ways in which any given society produces, consumes, and reproduces its life and lifestyles, how it conceptualizes these patterns of existence, and how it defends them both materially (for instance, in war) or discursively (for instance, in law). Part of recognizing these interlinkages also entails a soberer or critical analysis of the fanfare surrounding the prospects for a renewable energy future as we discuss in the final section of this chapter. To shed light on our main arguments, we briefly discuss the traditional ways in which energy has been approached in the IR/IPE literature. Second, we explain the capital as power approach to critical political economy. In the third section, we address the importance of carbon energy and energy systems and critically examine the prospects for a renewable energy transition. The conclusion of this chapter offers a brief summary of our main arguments.

Energy and Traditional International Relations/ International Political Economy

Despite some recognition that the field of IPE was born amidst the tumultuous 1970s when the price of oil spiked by 400 per cent in 1973 and 1979, until recently, the field has largely sidestepped a deep analysis of the importance of energy to global capitalism (Underhill 2000; Dickins 2006; Di Muzio and Ovadia 2016: 23; see also Gale (Chap. 32), this volume) (Fig. 34.1).

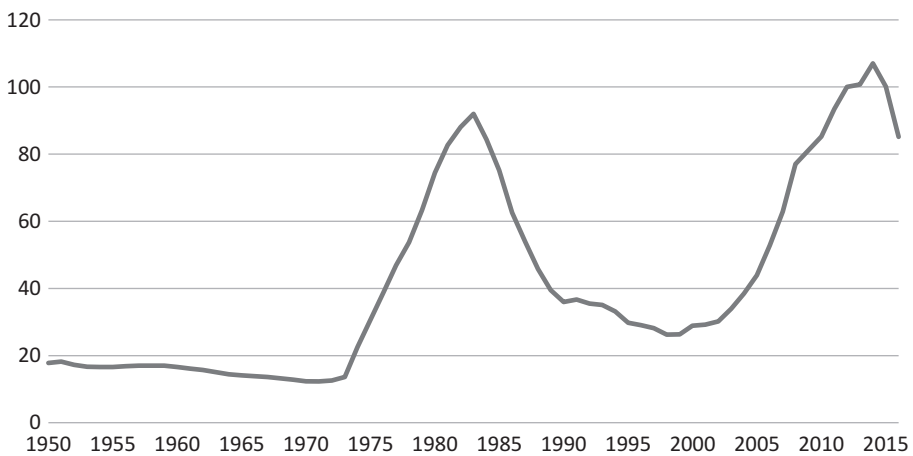

Fig. 34.1 Crude oil prices 1950–2016 (Yearly moving averages in 2016 US$ per barrel)

This is not to say that until late energy was totally ignored or downplayed by the field but rather that fossil fuels were largely taken for granted save for in periods of crisis when petroleum became more expensive or seemingly 'scarce' due to supply disruptions largely related to conflicts in the Middle East (Hancock and Vivoda 2014; Hughes and Lipscy 2013; Nitzan and Bichler 2002).[1] The potential for supply disruptions or oil price inflation leads IR and IPE theorists towards a concern for energy security. The main concern here is how nation states get 'access' to energy—specifically oil—and this has conditioned the two major approaches of (neo)Realism and (neo)Liberalism. The (neo)Realist tradition studies energy in terms of a strategic military commodity inherent in foreign policy agendas, specifically in Western countries and especially in the United States of America (Painter 1986; Yergin 1991, 2011; Levy 1982). Moreover, operating from the view of international anarchy, the Realist perspective generally prioritizes a state's capabilities for securing their energy needs up to and including violent conflict (Klare 2009). This was emphasized during the so-called energy crises of the 1970s, in current debates surrounding peak oil, as well as in Klare's argument that we are already in a period of resource wars (Klare 2002; see also Elhefnawy 2008). There is considerable truth to the energy security dimension of world energy but (neo)Realists virtually ignore the importance of capitalist accumulation because they generally operate from the point of view of 'methodological statism'. What we mean by methodological statism is a method of social scientific inquiry that prioritizes the state as the major actor in global affairs and assumes that state authorities largely operate in the 'national interest', understood to be knowable and shared equally across the population. While we do not deny the importance of the state as a global actor, we find that the belief in a 'national interest' is highly problematic as it suggests that the interests of elites are the same as ordinary citizens. Indeed, when we introduce the concept of differential accumulation, it should become clear that certain foreign policies have differential consequences for the population of a nation. Thus while (neo)Realism can help us understand some dimensions of energy security, it is relatively silent on the major driver of the global capitalist economy: the accumulation of money.

Unlike the (neo)Realist tradition, liberals have come to emphasize the importance of cooperation between nation states as well as powerful institutions and alliances in finding a potential alternative to fossil fuel dependence (Keohane and Nye 1997/2011; Lovins and Cohen 2011;

[1] With minor exceptions, see Gill and Law 1988; Balaam and Dillman 2013; Di Muzio and Ovadia 2016.

Mulligan 2010a, b). Liberalism and (neo)liberalism have engaged the energy literature from the point of view of the market and capitalist price system. Like (neo)Realism, they use an approach heavily influenced by neoclassical economics and generally believe that state and market agents are rational actors. Their focus on scarcity and the need for energy prioritizes the market price system as the key matrix that will inform future energy production and consumption (Di Muzio in Gill 2011; Hawken 1993; Xenos 1987; Newell and Paterson 2010; Albo 2007; Brand 2012; Bachram 2004). In this view, price signals should provide investors, producers, and consumers with the appropriate information to make wise decisions regarding the future of energy provisioning. Put simply, for the liberal tradition, if there is a renewable energy revolution, it will be the result of incentivized market forces operating through the price mechanism. What this suggests is that renewable energy firms must prove themselves more profitable than their fossil fuel counterparts (Di Muzio 2012).

A third traditional approach worth mentioning here given its renewed interest in energy is (neo)Marxism. Similar to realism in some dimensions, (neo)Marxism focuses on the balance of power in the world system through their concepts of imperialism and uneven and combined development. Broadly speaking, for (neo)Marxists, the foreign policies and militarism of the advanced Global North are imbued with an 'imperial mission' to exploit or control the Global South's global energy reserves (Harvey 2003; Stokes 2007; Labban 2008; Stokes and Raphael 2010). Unlike the two perspectives above, Marxism focuses on capitalism as a mode of production, and many now recognize that fossil fuels have been at the heart of capitalist development. For example, one school of thought in Marxism understands this mode of production as 'fossil capitalism' (Foster 1999; Altvater 2007; Zalik 2008; McNeish and Logan 2012; Malm 2013, 2016).[2] However, as Di Muzio and Dow (2017) have pointed out, there is a tendency for the Marxist school to conflate industrialism with capitalism, a mistake we believe that was already identified by Braudel (1983) in his study of capitalism and civilization from the fifteenth to the eighteenth century. Moreover, despite what some Marxists might say, the tradition is still wedded to a labour theory of value where the accumulation of money has to be explained by the exploitation of labour power. To be sure, labour can be exploited in the sense that it can be mobilized for capitalist profit and workers mistreated, but to argue that labour is

[2] Another branch of IPE energy literature is known as 'resource curse' theory/development, which is taken up by a variety of scholars and perspectives. See Auty 1993; Watts 2004; Zalik 2008; Obi 2010; McNeish and Logan 2012.

sole source of profit or loss is empirically false (Nitzan and Bichler 2009). For example, the world's leading mobile company Nokia had a market value just over US$ 120 billion in 2007, the year Apple introduced its iPhone and new operating system. As of late September 2017, the value of Nokia is just shy of US$ 30 billion, a percentage decline in value of −75 per cent over a ten-year period.[3] The question for us is what sent Nokia's market value into freefall? According to the Marxist paradigm where corporate earnings have to be explained by the labour theory of value, the rate of exploitation of workers must have been slowing while wages as a proportion of the surplus produced must have been increasing. However, in reality, every stock analyst knows that what drove down corporate earnings was Nokia's failure to compete with Apple's iPhone combined with new competition from below in the less expensive mobile phone market. What this suggests is that while production is important for corporate earnings and therefore overall capitalization, it is not enough to explain the magnitude of accumulation. Instead, as we argue in the next section, prices and accumulation are largely determined by organized power rather than the exploitation of labour.

Energy and Capital as Power

The capital as power approach to understanding global capitalism has a number of building blocks. To begin with, the approach recognizes that there is a great divide between owners of income-generating assets and non-owners of income-generating assets. What matters here is not who owns the 'means of production' per se but who owns income-generating assets and of what kind (e.g. corporate shares, financial bonds, government securities, etc.). We can call this stark division of wealth 'differential ownership' in at least two senses. First, it is differential between owners and non-owners, and second, it is differential between the owners of income-generating assets themselves. Of course it is true that a portion of the privileged or skilled working class will own some income-generating assets, mainly though their pension funds, but their degree of ownership will be far less than those we call dominant owners, or those high net worth individuals who have at least US$ 1 million in investible assets. According to Capgemini's 2016 *World Wealth Report*, there are just over 15 million individuals who fulfil this criteria (2016: 7).

[3] The value of Nokia is taken from the *Financial Times* 500 2008 and the value of Nokia at the time of this writing is taken from Google Finance (accessed 26 September 2017).

After differential ownership, the next important conceptual building block in the capital as power approach is the act of capitalization. Capitalization has a long pedigree, but in accounting terms, it did not become standardized until the 1990s (Krier 2009). Capitalization is the act of discounting a future flow of income into a present value and adjusting this calculation by some factor of risk. The reason why discounting is so central to capitalism is because of the time value theory of money in modern finance. This basic theory holds that money is worth more today than it is in the future because money today can start earning a return. For example, no investor would pay US$ 500 today for US$ 500 in the future. This would be a senseless act, given that the act of capitalization is to have *more* money in the future. So if we expect to receive US$ 500 at some future time, we might discount that into a present value using the prevailing rate of interest (say 5 per cent) to US$ 476.19. In other words, we would pay US$ 476.19 today for a future flow of income of US$ 500 or a profit of US$ 23.81. Two of the most important entities that are capitalized by investors are corporations through their shares and governments through their securities. Of the outstanding US$ 296 trillion in global capitalization (or put another way financial assets), US$ 166 trillion is made up of corporate equities (US$ 69 trillion) and government bonds (US$ 59 trillion).[4] Thus, of all outstanding capitalization, 56 per cent is represented by corporate equities and government securities.

The next step in the capital as power approach is to ask what is being capitalized. We know that investors capitalize assets to get a return on their money and that rising capitalization typically follows on from the expected future earnings of corporations and governments. If governments look like they will be unwilling or unable to service the interest on their outstanding bonds, or worse, if they refuse to service debt, the value of government securities will plummet or even become worthless. Though slightly different, the same process is true of corporations. Should investors anticipate lower expected returns in any given quarter, the value of the corporation's shares (and thus its capitalization) will fall. But the magnitude of government revenue and corporate earnings are contingent on these entities exerting power over social reproduction *writ large*. In other words, they shape and reshape the landscape of social reproduction in an effort to garner their income streams and, in the case of corporations, beat an average rate of return like the S&P 500. It is in this sense that we can say that capital is commodified differential power. It is

[4] Wallace Witkowski (2015) 'Global stock market cap has doubled since QE's start' Market Watch http://www.marketwatch.com/story/global-stock-market-cap-has-doubled-since-qes-start-2015-02-12 (27 September 2017).

commodified in the sense that these ownership claims to a future income stream are tradeable and it is differential power in the sense that different entities bring in different amounts of earnings. For this reason, those firms with the highest levels of capitalization are assumed to be able to exert more power over the social field than weaker counterparts.

We can use this approach to understand the power of the fossil fuel industry. Depending on what year we consider, the oil and gas sector of the global economy is either the most heavily capitalized sector or ranks in the top three according to the *Financial Times 500*—a list of the leading global firms by market capitalization. This tells us at least two things. First, the power and reach of the oil and gas sector of the global economy must be enormous, and second, that it is highly successful at differential accumulation. But the vast majority of oil and gas is not owned by publicly listed corporations but by state oil and gas companies. If we were to estimate the value of these state-run companies as though they were listed on the market, then the oil and gas sector of the economy would be far and away the most heavily capitalized sector on the planet (Di Muzio 2012). This may also seem commonsensical and even innocuous until we realize that the capitalization of the oil and gas sector of the economy is contingent on maintaining the planet's reliance on fossil fuels for the foreseeable future. As many have pointed out, combusting the world's remaining fossil fuels will almost certainly lead to runaway climate change. Until very recently, Exxon Mobil was ignoring and funding disinformation campaigns against climate change (Conway and Oreskes 2010). Now fossil fuel companies such as Exxon Mobil, Royal Dutch Shell, and British Petroleum are no longer funding disinformation campaigns against climate change and are acknowledging it (Nasiritousiin 2017). But at the same time, monetizing the world's remaining fossil fuel resources is the main way these corporations generate differential earnings and therefore differential capitalization. This is perhaps the largest contradiction of modern history—over the last century, in particular, the oil and gas industry has used its power to shape and reshape a global economy heavily reliant on the combustion of fuel sources that threaten to dramatically alter living conditions for humans and other creatures in the biosphere. It is true that there are some movements in the direction of divesting from fossil fuels, but these have so far been marginal. Moreover, the world's largest banks continue to lend heavily to the fossil fuel industry (Banking on Climate Change 2018). Through their loans, the banks are capitalizing on the ability of the fossil fuel industry to find, produce, and sell evermore fossil fuels to service their debts. Put differently, these loans are betting on the continued growth of the fossil fuel industry, not its retrenchment. To anyone concerned with the prospects of runaway climate change, these trends are highly worrying.

Climate Change, Carbon Capitalism, and Renewable Energy

Currently, the future global developmental trajectory seems to be at a crossroad. The conjuncture is due to the growing consensus on the imminent threat of global climate change and the need for populations to transition from carbon-energy intensive production and consumption towards a low-carbon based energy world order (IPCC 2007; UNHPR 2007/8; UNEP 2007; Copenhagen Accord 2009; IEA 2013; UNFCCC 2016). Simply put, global climate change occurs when long-term weather patterns are altered through human or natural biosphere activity, and global warming is only one form of climate change (Smil 2013; see also Cadman (Chap. 23), this volume). Another aspect of climate change, not yet scientifically verifiable, are extreme weather patterns, such as droughts, flooding, hurricanes, tornadoes, wild fires, heatwaves, and so on. However, the United Nations Office for Disaster Risk Reduction (2016) conducted a study from 1995 to 2015 and noticed an increasing and frequent trend of weather-related disasters (see also, Angus 2016: 94ff). For example, an alarming 90 per cent of disasters globally were weather-related disasters (6457). Over this 20-year period, weather-related disasters have claimed '606,000 lives, 4.1 billion people have been injured, left homeless or in need of emergency assistance', mostly impacting the Global South (2016: 6). While the actual cost to human lives and the environment may be immeasurable, the economic cost of these extreme weather events is in the hundreds of billions of dollars (UNISDR 2016). As a result, both the Intergovernmental Panel on Climate Change (2007) and United Nations Human Development Programme (2008) argue that the world cannot handle a global temperature rise of 6°C without irreparable or catastrophic damage to the planet, natural habitats, and human livelihoods. In order to prevent this future global catastrophe, the United Nations Framework Convention on Climate Change (2016) is proposing an 80 per cent reduction in greenhouse gas (GHG) emissions that would help meet the 2°C scenario, which is estimated to be an acceptable increase in temperature (IEA 2013).

For world order to transition to a low-carbon developmental trajectory and meet the 2°C scenario, the main sector of the global political economy that needs to cut emissions is the global energy system, which is dominated by the production and consumption of fossil fuels. For instance, the fossil fuel and cement industries disproportionately represent '63% of cumulative worldwide emissions of industrial CO_2 and methane between 1751 and 2010'

(Heede 2014: p. 229). In 2010 alone, the fossil fuel-based energy system accounted for 84 per cent of greenhouse gas emissions (GHG) (Smil 2013: 259). Currently, the world's total primary energy supply (TPES) is still dominated by carbon energy, with fossil fuels representing 81.3 per cent in 2010 and 81.4 per cent in 2015 with the remaining 18.6 per cent derived from nuclear, hydro, combustible renewables, waste, and marginal sources such as wind and solar (IEA 2017c, b). This is not surprising as the global economy has, for centuries, been constructed and reconstructed by the logic of carbon capitalism and petro-market civilization (Di Muzio 2015). This logic is underpinned by the following principles: (1) the logic of differential capitalization, (2) the belief in unlimited growth, and (3) the carbonization of everyday life by which we mean the social reproduction of a carbon-energy intensive lifestyle. This pattern of world order can only be sustained through a vicious cycle of path dependency, whereby production and social reproduction require evermore fossil fuels to meet lifestyle choices and economic growth (Di Muzio 2015; Dow in Di Muzio and Ovadia 2016). While there is highly unequal energy access and distribution between the Global North and South, we should note that parts of the world need more energy for an adequate lifestyle (Schwartzman 2012; Di Muzio 2015: 167ff; Urry 2013: 23ff). For example, there is still roughly one billion people without access to electricity globally and energy deficiency and poverty appear to go hand in hand (Ren21 2017: 19; Abramsky and De Angelis 2008–9; UNDP 2000; see also Bernards (Chap. 20), this volume). In other words, vast energy demands are no longer coming from traditional Organisation for Economic Co-operation and Development (OECD) countries whose consumption is said to have largely plateaued or reached a far lower rate of growth. Instead, new energy demands are coming from non-OECD countries and the BRICs, especially China and India (IEA 2012, 2017c; Ren21 2017).

Therefore, with an increase in energy demand among political communities seeking to develop their own petro-market civilizations and the need to transition to a low-carbon world order, what are the possibilities for a renewable energy world order? The concept of carbon capitalism used here focuses on the dominant ritual of capitalization. We argue that because of its forward-looking nature, capitalization is one of the main indicators for understanding empirically and monetarily how corporations, global investors, and nation states shape and reshape everyday life and the future developmental trajectory of world order. If corporations, global investors, and nation states no longer assume that fossil fuels are viable or are expected to dominate the global energy system, then we should see a rapid decline in market capitalization, as seen above in the Nokia example. Drawing on data from the *Financial Times*

Global 500,[5] in 2014, the capitalization of publicly traded oil and gas producers was the third largest sector of the global political economy just behind banks and pharmaceuticals and biotechnology at US$ 2.5 trillion. This figure is down from US$ 3.9 trillion in 2008 when the oil and gas industry was the leading sector of the global political economy by market capitalization. The primary reason for this drop in capitalization is the fact that oil and gas prices have come down since their spike in the mid-2000s. Yet, the US$ 1.4 trillion dollar drop in market capitalization should not be taken as a victory for the renewable energy industry. Instead, we need to compare the oil and gas industry with the renewable energy industry. There are a number of indexes that measure the capitalization of the renewable energy industry, but the *WilderHill Nex* is one of the most comprehensive so we use it here to compare the levels of capitalization of the renewable energy industry with the oil and gas industry—recalling that most oil and gas is owned by state-run companies and not publicly listed. The *WilderHill Nex* is 'comprised of companies worldwide whose innovative technologies and services focus on generation and use of cleaner energy, conservation and efficiency, and advancing renewable energy generally. Included are companies whose lower-carbon approaches are relevant to climate change and whose technologies help reduce emissions relative to traditional fossil fuel use'.[6] In other words, considering the *WilderHill Nex* ought to be a good indication of how investors weigh the profitability and prospects of renewable energy going forward. Figure 34.2 tracks the index since its inception against the capitalization of the largest oil and gas firms in the *Financial Times 500*.

This chart is rather instructive. Whereas the oil and gas industry's capitalization increased by 127 per cent over the period despite some peaks and troughs, the *WilderHill Nex* declined over the period under study by 29%. What this suggests is that global investors continue to believe that oil and gas will provide greater returns than the renewable energy industry, and while it may not be true for individual firms, so far they are correct for the industry as a whole.

More importantly, the average market capitalization for renewable energy firms is only US$ 2.7 billion, with the largest company valued at US$ 30 billion (Widerhill Nex 2016). What is more, nation states still provide an estimated US$ 548 billion in subsidies for fossil fuels compared to US$ 121

[5] All numbers are rounded. This does not include nationally owned oil and gas producers like Aramco, Gazprom, National Iranian Oil Company, and so on. See Di Muzio 2012.

[6] http://www.nexindex.com/ (accessed 20 January 2017).

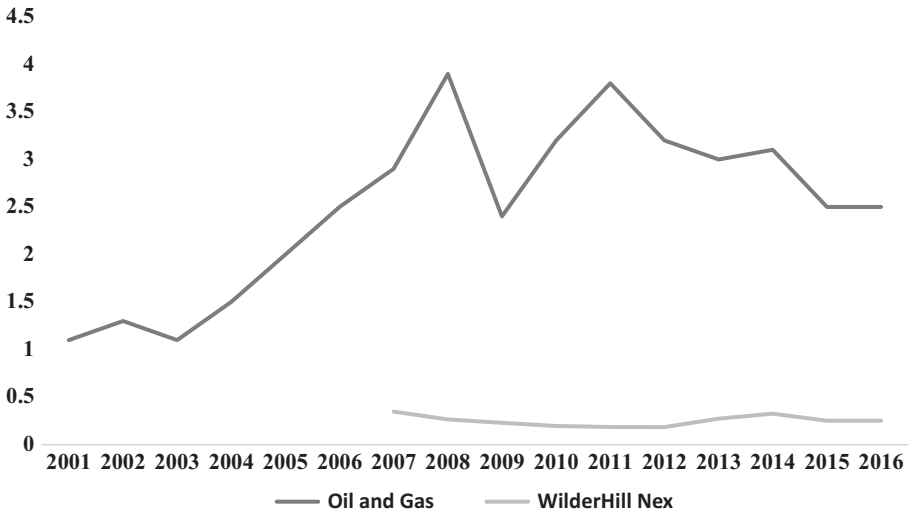

Fig. 34.2 Oil and gas industry and WilderHill Nex capitalization. (Source: FT Global 500 and WilderHill Nex. US$ Trillion)

billion in renewable energy (IEA 2014; Bridle and Kitson 2014). What all of this suggests is that nation states, corporations, and global investors are still very much committed to 'placing their bets' in a future carbon-based energy world order.

While the portrait above seems rather bleak, there are some promising possibilities in the realm of renewable energies. For instance, the end to King Coal could be coming. The importance of coal, for electricity and heat, has continued to decline, in 2016 alone by 458 Mt, which is the 'largest decline in absolute terms' since 1971 (IEA 2017b; BP 2017).[7] In addition, the International Energy Agency reports that TPES 'was 13,647 Mtoe, of which 13.4%, or 1,823 Mtoe (up from 1,784 Mtoe in 2014), was from renewable energy sources' (2017c: 3). Since 1990, 'renewable energy sources have grown at an average annual rate of 2.0 per cent,' which is slightly higher than the growth rate of world TPES, 1.8 per cent (Ibid.). The United Nations Environmental Programme (UNEP) notes that China, India, and Brazil have become leaders of the Global South in their commitment and investment of renewable energy at US$ 156 billion.[8] Another recent trend is that investment

[7] 'OECD Europe declining to 22.2% in 2016 from 49.1% in 1971, while the OECD Americas dropped from 41.0% in 1971 to 27.1% in 2016. Meanwhile in OECD Asia Oceania, generation from coal has risen from 18.0% in 1971 to 39.4% in 2016' (IEA 2017a: 8).

[8] 'China, which lifted its investment by 17% to $102.9 billion, or 36% of the world total' (UNEP 2016: 11).

in renewable power technologies is finally outpacing investment in fossil fuels and nuclear power generating plants. As renewable power plants attracted over US$ 249.8 billion compared to 'US$ 113.8 billion for fossil fuel-fired generating capacity and US$30 billion for nuclear power capacity' in 2016 (Ren 21 2017: 116). Meanwhile, the investment of many countries in the Global North continues to fall, now at US$ 125 billion in 2016, down 14 per cent from 2015 (UNEP 2016; Ren 21 2017: 112). However, another positive sign is that countries of both the Global North and Global South are debating and developing policies to shift their economies from carbon-based to renewable-based (UNFCCC 2016; Tienhaara 2014). Statistically, as seen above, the world still has a long struggle towards a renewable energy future. With this in mind, it will be up to the various organs of global civil society to keep up the pressures on both corporate and state social forces since, other than individual lifestyle changes, this is the only way in which a peaceful transition to a new energy order may come about. If the transition fails to be organized and coordinated, the transition to a post-carbon world order may indeed be bleak.

Conclusion: Energy and the Manhattan Project

Currently, the need to transition to renewable energy and decarbonize daily life as much as possible has largely been left up to the anarchy of capitalist markets, the price mechanism, and the pursuit of profit. In this brief chapter, we have tried to demonstrate how this is a misguided strategy given the profitability of the oil and gas industry vis-à-vis the renewable energy industry at present. We would argue that we need a far more state-directed and internationally coordinated project to shift to a renewable energy system that uses as little fossil fuel energy as possible. Given the current political climate, this may seem like a hopeless proposition but there are historical precursors. For example, when the United States found out that German scientists had discovered nuclear fission and that this finding had the potential to build a bomb unlike the world had ever seen, a coordinated multinational effort known as the Manhattan Project was launched. The tragic legacy of this US$ 27 billion project (in 2016 dollars) is well known to history, but it is an example of state-directed and state-funded cooperation to achieve a goal. We would argue that what is needed today in the face of peak oil and global climate change is a Manhattan Project for renewable energy. However, while we advocate renewable energy, we must also keep in mind that we cannot continue to mindlessly chase economic growth as an end goal of human endeavour. In other words,

we do not argue for renewable energy to replace fossil fuels so we can go on producing and consuming at the present rates. We need to find a new operating system for social reproduction geared to well-being and the logic of livelihood rather than the accumulation of profit and power. If we fail in this endeavour, the life chances of future generations will likely be grim.

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35

Commodities

Adam Sneyd and Charis Enns

Introduction

In the early 2000s, a commodity supercycle began as commodity prices rose rapidly. The International Monetary Fund (IMF) explains that this recent commodity boom is 'remarkable in a historical perspective not only for its magnitude, but also because – unlike most previous booms – it has been broad based' (2011, p. 46). Commodity prices increased across various categories, including agricultural, metal and energy commodities, rather than in one category alone. Although there has been more economic turbulence and price volatility in recent years, there is some evidence to suggest that this commodity boom continues (ECLAC 2013). For example, gold production continues to increase across Latin America, while aluminium prices are on the upswing in Africa as a result of growing demand in China. Recent political events have also caused certain commodity prices to climb, such as the election of Trump in 2016 and rising tensions between the United States and North Korea in 2017. Thus, although analysts and academics debate whether or not the commodity supercycle is over, commodities remain intimately intertwined in today's global political economy and are therefore central to the study of IPE.

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This chapter presents a brief synoptic story about IPE and commodities. It aims to impart the latest scholarship on this topic and to offer readers insights into recent issues worthy of further IPE attention. As not all commodity experts self-identify as IPE scholars—in fact, IPE scholars have been relatively slow to study recent commodity-related developments—this chapter refers to commodity-focused work in both IPE and in other disciplines (Margulis 2017). The outputs of economic and social historians, political economic anthropologists, international sociologists, economic geographers, development economists and popular commodity commentators are consequently cited. The overarching message of this contribution is clear: IPE narratives on commodities are about much more than the shift from the 1970s OPEC-era politics of interstate, intergovernmental or international-level governance initiatives to today's transnational politics of multi-stakeholder commodity roundtables, standards, codes and certifications. Moreover, a recent profusion of commodity-linked dynamics in the global political economy assures that this territory will prove to be fertile terrain for IPE scholars and students over the coming years.

The chapter is structured to reflect and emphasize the core themes of this volume. The first part of the story conveyed below focuses on *global reordering*, illustrating how the rising demand for commodities as seemingly innocuous as cocoa can fuel shifts in the projection of political economic power over territories and people. Next, the chapter introduces an ongoing conversation within IPE about commodities and *development*, which debates whether new patterns of commodity trading can be linked to the rise of new developmentalisms. The story then turns to examine the rising importance of finance in commodities, emphasizing the increasing financial activities of commodity traders themselves. Finally, the chapter reviews several emerging areas of interest in research on commodities—including illicit and informal flows, financialization, transnational governance and the impact of recent crises—before concluding with a brief discussion of topics that remain ripe for further research.

Global Reordering

As the end of bipolarity and the rise of the BRICS has resulted in global reordering, shifts in the provision of finance and the projection of geopolitical power in the global economy have become a central area of growth and innovation in IPE scholarship. Commodities are at the core of many of these accounts. IPE usefully provides the tools necessary to identify new transnational

political economic linkages between commodity suppliers and their new markets and to assess the differential capacity of new buyers to wield power and realize sustained legitimacy in the world commodity order (Sneyd 2014).

Recent IPE scholarship draws attention to changing patterns in North-South trade, as well as to the rise of South-South trade—often focusing specifically on developments in commodity markets amongst the BRICS and other similar 'rising' powers. This scholarship presents a variety of evidence to chart and explain the growth of South-South commodity trading. In addition to growing demand in southern markets, recent works in IPE link growing South-South trade to the fact that entry to southern markets is often more accessible to commodity suppliers from the south than entry to northern markets (Horner 2016). The Indian pharmaceutical industry, for example, has found exporting opportunities in the Global South that do not require it to meet the same stringent quality standards of North American or European markets. Similarly, Smillie's (2014) account of the global political economy of diamonds details changing flows of trade in Zimbabwe's diamond industry: many of Zimbabwe's diamonds are now exported to Dubai's cutting and polishing hub rather than to Antwerp, as buyers in Dubai have demonstrated less concern about the links between these diamonds and human rights abuses. Ponte et al. (2014) identifies a similar phenomenon in Bangladeshi aquaculture, showing how producers have been able to identify new and less-quality demanding markets in the Middle East and Russia.

A great deal of this research focuses specifically on the changing nature and scale of trade between China and Africa (Carmody 2016). This body of work usefully shows how China's rising role in Africa is driven by both economics and politics. For example, although China has historically been a large importer of African cotton, the European Union's technical assistance and capacity-building programme for African cotton has contributed to further 'reorienting' Africa's cotton exports to China (Sneyd 2014). In response to earlier scholarship that tended to present overly simplistic narratives about the exploitation or neo-colonial nature of the relationship between China and Africa, recent IPE scholarship in this field offers more nuanced and disaggregated analyses of Sino-African relations. While cognizant of the fact that China remains a principal source of demand for African ivory and conflict minerals, as well as unsustainable volumes of timber and fish, contemporary IPE scholarship draws attention to the complexity and dynamism of the relationship between these two regions. Shen and Power (2017), for example, contend that China is supporting Africa's transition to low-carbon energy systems rather than preventing it while Shaw (2015) and others explore how African leaders use natural resources to assert agency when negotiating with China.

In addition to charting changing commodity trade patterns and the rise of the BRICS as sources of demand for commodities, recent work in IPE also emphasizes the link between commodity flows and the emergence of new regionalisms (Grant et al. 2013; Shaw 2015). New oil and gas pipelines provide a poignant example of this phenomenon. Just a few years ago, Shaw argued that African regions stood to be redefined as competing pipelines pushed political economies to engage differently with each other and also with the wider world. This can currently be seen in East Africa, where the choice to export Uganda's oil to international markets by constructing a pipeline through Tanzania rather than Kenya is having significant implications on broader plans for regional integration. Such examples of changing patterns of commodity production and trading have been used to update traditional theories of IPE to accommodate the study of regions and regional orders, which was previously often overlooked in IPE scholarship.

Global Development

Alongside the emergence of new regionalisms, contemporary IPE scholarship is currently engaged in an ongoing debate about whether new patterns of commodity trading—resulting in increased flows of private capital, foreign direct investment, remittances and philanthropy between countries in the Global South (see Busumtwi-Sam (Chap. 12), this volume)—can be linked to the rise of new developmentalisms. For example, over the past decade, increased demand for primary commodities in China and India has resulted in new Chinese and Indian mining sector and agricultural investments across Southern Africa. In many cases, these investments have noteworthy development impacts, such as increased wages for some in urban areas (Cheru and Modi 2013). Similarly, state-supported Brazilian agriculture investments in Africa are often claimed to support both industrial agribusinesses and family farming, thereby contributing to ameliorating rural poverty and unemployment (Amanora and Chichava 2016; Cheru and Modi 2013).

There is widespread agreement amongst IPE scholars that the influx of commodity-related investments by the BRICS to other parts of the Global South serves as a new source of development finance (Carmody 2016; Mawdsley 2017). However, a debate exists around whether this represents a novel and more constructive and equal form of development cooperation. On one side of this debate, there is a narrative about this approach to development being premised on more 'horizontal, mutually beneficial objectives' between countries of similar levels of development (Horner 2016, p. 400) and serving

as a means of countering global inequality by 'rebalancing the global economy' (UNCTAD 2011, p. 2).

On the other side of the debate, however, some IPE scholars remain more cautious about the win-win development potential of South-South trade. These scholars argue that attempting to drive development through commodity-related investments by the BRICS stands to reinforce historical dependencies on the export of commodities in so-called less developed countries and to introduce new inequalities between actors in the Global South (Carmody 2017; Horner 2016). For example, in their analysis of the commodity boom in Latin America, Caldentey and Vernengo (2017) illustrate how this boom has resulted in a positive terms-of-trade balance for the region but growing economic dependence on China. Although scholars agree that 'new maps of development' (Sidaway 2012) appear to be emerging as a result of the commodity supercycle and the increasing integration of the Global South, the precise implications of this phenomenon are still being debated.

An emerging area of IPE research related to commodities and development focuses on the role of smallholders in commodity production and trade. This research shows how rising and volatile commodity prices and the financialization of commodities can have adverse development impacts, such as undermining existing livelihoods, dispossessing smallholders of land, worsening inequalities or contributing to food insecurity (Clapp 2014). Although this research remains somewhat on the fringe of mainstream IPE scholarship, it is starting to receive more attention in policy circles. For example, UNCTAD's 2015 Commodities and Development report, titled *Smallholder Farmers and Sustainable Commodity Development*, acknowledges that smallholders have 'suffered from policy neglect over the past few decades' (2015, p. 3) in discussions about commodity production and trade and offers a series of policy proposals to safeguard smallholders.

Illicit and Informal Commodities Production and Trade

The covert world of illicit commodity production and trade continues to flourish across the globe. In Africa, for example, transnational trafficking of Eastern European and Libyan arms has strengthened networks that facilitate the illegal trade of wildlife products, exchange of illicit or stolen goods and acts of terrorism (*The Economist* 2014). In the central part of the continent, questions around the sales of resource rights and the extraction of rare minerals regularly arise while other illicit commodities also flow throughout the

region, such as Malagasy rosewood and threatened fish species. At the same time, Asian-origin commodities—both simple manufactures and counterfeits—flood the continent, undermining local factories and formal sector jobs while buttressing the growth of the continent's informal economic activities, for example, by creating opportunities for hawking.

The study of illicit commodity production and trade has long been of interest to IPE fellow travellers, such as investigative journalists. For example, recent writing by Burgis (2015) is an essential introduction to this area of research, offering high-level accounts of the politics of illicit economies. However, IPE scholars have long paid insufficient attention to illicit transnational flows of commodities. More recently, a number of important contributions have been made to this growing area of study, including research on illicit financial flows, such as offshore accounts, piracy and money laundering (Sharman 2011) and drug trafficking, arms trafficking and human trafficking. Future IPE scholarship could build on this area of research by examining topics that so far remain understudied, such as the global counterfeit economy and global cybercrime.

Another topic within this field of research that has received more attention as of late is transnational environmental crime. This includes research that looks at: the trafficking of illegal plant species and timber (Dauvergne and Lister 2011); the illegal trade of endangered, threatened and protected species (Clover 2013); and the transnational movement and dumping of toxic and hazardous wastes. Some particularly compelling work in this area looks at the political economy of the illegal wildlife trade, which has become a multibillion-dollar business (Duffy 2016). This research emphasizes the role of local institutions, society and culture, alongside larger political and economic factors, in determining demand and supply for illegal wildlife products. Such works stretch the boundaries of IPE theory by looking at issues and actors beyond and 'below' the state to shine new light on our understanding of the contemporary global political economy.

In addition to paying greater attention to illicit commodity production and trade, there is also a growing interest in contemporary IPE scholarship on informal commodities. For example, there is a large body of literature that analyses the political economy of artisanal and small-scale mining (ASM) in Africa and Asia (Hilson and Garforth 2013). There is also a growing body of research that looks at 'street economies' in the Global South, examining the role of activities such as street vending and hawking in the global political economy. Research on informal commodity production and trade documents the linkages and tensions between formal and informal economies, as well as the importance of informality to sustaining livelihoods around the world.

Although this is an expanding and exciting area of research, carrying out research on illicit and informal commodities remains challenging because of a lack of empirical data. Researchers also often face challenges accessing research participants in a safe and ethical way. For this reason, research on illicit and informal commodity production and trade tends to employ innovative methods and source out new ways of doing IPE analyses (Phillips 2017).

Financialization

During the commodity price boom or supercycle of the early 2000s and its aftermath, financial actors, markets and practices became increasingly important in the trade of commodities—a phenomenon that is widely referred to as financialization. Prior to the supercycle, retail investors, pension funds, hedge funds and private equity groups did not generally dabble in commodity markets. In stark contrast, today it is now possible to invest in exchange traded funds that hold physical commodities or commodity futures and in funds that track commodity indices, such as Standard & Poor's S&P GSCI benchmark (see Wigan (Chap. 19), this volume). Several investment management corporations also maintain commodity funds that simultaneously place investor money in commodity-linked derivatives and also in the equities of commodity-related companies. In this setting, the provision of trade finance to physical traders to enable exchanges—the historic bread and butter of intermediaries in the global commodity trade—has shrunk as a proportion of the overall commodity finance industry.

Contemporary IPE scholarship captures these recent empirical developments in global commodity finance. A growing body of work investigates the creeping financialization of select commodities in international markets. For example, prior to the financial crises of 2007–2008, the role of finance in the global food system was rarely a topic of discussion within IPE. However, when the financial crisis brought chaos to world food markets by triggering rapidly rising and volatile food prices, a handful of IPE scholars began to study this trend (Clapp 2012; Ghosh et al. 2012). There is now a burgeoning body of literature on the financialization of agricultural commodities, which documents the development of new financial investment products linked to food, such as commodity index funds and general agricultural index funds. This body of research is particularly important given the regressive impacts that the financialization of agricultural has had and the disastrous impacts on the poor by driving food prices to record-level highs (Isakson 2014).

Contemporary IPE scholarship is also advancing understanding of other types of innovations employed by financiers to wring greater profits from commodities. High earnings by commodity firms are associated with structural factors, such as the rise of consumers in emerging markets. However, at the same time, new innovations in commodity trading are also enabling firms to capitalize on new opportunities. For example, one of the world's largest commodities trading companies, Glencore, has reportedly described the global food crisis and soaring world prices as a 'good' business opportunity (Cusick 2012). Klein (2007) developed the notion of 'disaster capitalism' to describe how commodity firms like Glencore are using climate change for value creation.

Predictably, the rapid financialization of commodities has presented a challenge for those trying to govern and regulate commodity trading (Margulis 2017). Some commodity firms continue to evade enhanced banking regulations put in place following the financial crises of 2007/2008. They also tend to pay much less tax than banks. Recently, some firms have even moved their operations from Switzerland to other economic centres—such as Singapore—or to offshore havens, such as the British Virgin Islands, to take advantage of lower taxes still (see Vlcek (Chap. 22), this volume). Finally, commodity price manipulation scandals remain a problem. For example, in the aftermath of the London Interbank Offered Rate (libor) interest rate fixing, evidence also emerged that several bankers had 'rigged' the daily gold and silver price 'fixes' (Schäfer et al. 2014). While IPE scholarship looks at the governance and regulation of commodity production and trade broadly (as detailed in the following section), there remains a gap in IPE research that focuses explicitly on financial governance and regulation. However, a recent special issue by Clapp et al. (2017) takes an important step towards filling this gap.

Transnational Governance

Because commodity production and trade is so global in nature, it is a fruitful area of study for IPE scholars who are interested in transnational governance. Recent efforts to better govern commodity and production and trade have yielded new types of non-state transnational governance schemes, such as multi-stakeholder initiatives (MSI), codes of conduct, voluntary guidelines and certification and auditing and labelling systems (Gale and Haward 2011). IPE analyses of these new innovations in governance offer important insights as to how governance is being redefined and rearticulated in the contemporary global era.

Over the past decade, a number of new systems of transnational governance have emerged in the extractive sector, including the Extractive Industries Transparency Initiative (EITI), the Voluntary Principles on Security and Human Rights, the African Mining Vision, the Kimberly Process, the Dodd-Frank Act on conflict minerals and various fair trade mineral schemes. A variety of different actors have been involved in the design and implementation of these governance arrangements, including both public and private actors operating across different levels. For example, fair trade mineral schemes are often devised in the Global North but then implemented in individual artisanal mining communities in the Global South (Hilson 2014), whereas initiatives like the EITI originate through discussions at the transnational level but must be adopted at the national scale to have any impact. Because so many new systems of transnational governance have emerged in recent years, the extractive sector is now subjected to multiple, overlapping and sometimes competing rules and regulations. Recent IPE scholarship documents the growing complexity of governance of the global resource economy, examines the implications of these new governance innovations and identifies areas where governance gaps still exist (Campbell 2013; Leonard and Grovogui 2017; Singh and Bourgouin 2013).

Innovations in transnational governance have also taken place in the global agricultural sector. Recent work by IPE scholars in this area has explored the development and impacts of new governance mechanisms in the production and trade of sugar and cotton (Richardson 2009; Sneyd 2014). Both journalists and IPE scholars have also paid close attention to developments related to the governance of palm oil and, more specifically, to the politics, successes and shortcomings of the Roundtable on Sustainable Palm Oil (RSPO) (Richardson 2015; McCarthy 2012). Again, this scholarship shows how the production and trade of agricultural commodities is shaped by a complex system of hybrid governance. It also draws attention to the recent shift away from international organizations that were traditionally charged with such regulation towards the rise of the private sector, which now increasingly self-governs through private, industry and multi-stakeholder standards (Ponte 2014).

Finally, recent IPE scholarship also examines the transnational governance of forests and fisheries. The Forest Stewardship Council (FSC) and the Marine Stewardship Council (MSC) have attracted considerable scholarly attention in recent years (Cadman 2011; Foley 2017; Gale and Haward 2011). This body of literature addresses questions related to the authority and legitimacy of new transnational governance instruments. Additionally, this literature details the ways that certifications and standards are both a means of exercising power and sites of power struggles in the commodity sector—as various

actors compete to define the rules of the game (Dauvergne and Lister 2011). Altogether, this robust and growing body of research on transnational commodity governance reveals how commodity governance is changing as a consequence of economic globalization and the shifting political economy of commodity production and consumption. While just a few decades ago, commodity governance was primarily carried out by the state, today, non-governmental organizations, governments, commercial actors and individuals are all involved in governing.

Emerging Global Issues

Perhaps the most crucial aspect of the global commodity story is environmental despoliation and the possibility of future resource scarcity. The science that fuels claims about the latter remains subject to rigorous contestation. Here, heated controversies over the validity of the notion that oil availability has 'peaked' have been accompanied by more alarmist popular accounts about the exhaustion of basic commodities, including food, energy and water (Klare 2012). Wherever one stands on the measurement of resource depletion, there can be little doubt that a 'scramble' for resources is ongoing.

IPE scholars have made great progress unpacking crisis narratives about resource scarcity. This research shows how rising demand for commodities from the BRICS, along with continued demand from the Global North, has resulted in land grabbing, namely, 'the large-scale acquisition of land or land related rights and resources by corporate (business, non-profit or public) entities' (White et al. 2012, p. 619). This competition for land has contributed to growing concern about land and resource scarcity. At the same time, interrelated crises—including rising food prices, climate change and financial downturns—have intensified the rush to access land to ensure future food, energy and water security. Rising commodity prices have also made the acquisition of land look like an increasingly attractive option for agribusinesses and the energy sector (Cotula et al. 2009). Combined, this series of events has trigged a rush for basic commodities.

Although both the fear of resource scarcity and rising commodity prices have attracted new investments in land and resources, spikes in commodity prices have often been followed by sharp declines and price volatility. Flex commodities—commodities with multiple uses that may be flexibly interchanged—have emerged as a direct response to this problem (Borras et al. 2016). A growing body of research in IPE illustrates how investors use flex commodities to reduce uncertainty by diversifying their investment

portfolio, thereby enabling them to better react to changing prices and withstand price shocks (Alonso-Fradejas et al. 2016; Borras et al. 2016; McKay et al. 2016). For example, timber can be exported when timber prices are high, but it can also be ethanol or for carbon sequestration when timber prices are low. Other common flex commodities include corn, palm oil, soya and sugarcane.

On the other side of the spectrum from flex commodities, niche commodities have received relatively less attention in contemporary IPE scholarship. Niche commodities are either derived from nature or are specialized goods and services that are sold to a limited number of consumers at a relatively high price (Polain de Waroux and Lambin 2012). Due to their high value, niche commodities are primarily produced for and purchased by the wealthy—a very small subset of the global population; yet, the production of niche commodities tends to have a significant influence over livelihood and land use decisions in producer regions (Polain de Waroux and Lambin 2012). In other words, there is a problematic relationship between the production and trade of niche commodities and poverty and inequality. Examples of niche commodities include argan oil (Polain de Waroux and Lambin 2012), exotic plants (Van Damme and Termote 2008), wild foods (Hathaway 2014) and certain fair trade commodities, such as specialty coffee. However, the relationship between niche commodities, international politics and economics remain under-researched in IPE scholarship.

Finally, another important area of research that is receiving more attention from scholars working at the nexus of IPE and international political ecology is that of commodities and environmental conservation. This scholarship debates whether the commodity supercycle is driving an unregulated scramble for primary commodities or, if instead, new regulations, laws and other government actions are being enacted to mitigate the impacts of the supercycle on the environment (Broad and Fischer-Mackey 2017; Margulis 2017). This research also explores the social, economic and political implications of the commodification of nature for profit. For example, Benjaminsen and Bryceson (2012) show how the demand for international nature tourism is resulting in the commodification of wildlife. Similarly, Feldman (2012) and Franco et al. (2014) examine processes of water privatization, commodification and financialization. Combined, this body of research shines light on new political economic arrangements that are being devised to govern use and access to natural resources, as well as the implications of declaring natural resources that are essential to human life into tradable commodities.

A second and closely related strand of this research considers how the environment is being commodified in order to combat climate change. Many

scholars in this area of study are concerned with the implications of sequestering and converting the world's environmental problems into tradable commodities. One example of this is carbon-offset trading programmes, such as the United Nations REDD+ scheme. This scheme aims to reduce emissions from deforestation and forest degradation by enhancing carbon stocks in developing countries. Critical IPE scholarship addresses pressing questions that have emerged as initiatives like REDD+ have turned carbon into a commodity, like who benefits from, controls and owns these new 'natural' commodities (Fletcher et al. 2016). As the effects of climate change continue to intensify around the world, so too should IPE research into the political processes and outcomes associated with the commoditization of climate change adaptation.

Conclusion

This chapter reviews empirical and theoretical developments related to the political economy of commodities. By reflecting on recent trends in IPE scholarship, it also identifies several emerging areas of study that warrant further attention moving forward, such as illicit and informal flows of commodities, the financialization of various commodity sectors and the impacts of recent and interrelated crises on commodity production and trade.

A common thread that appears in nearly each of the preceding sections is that of global inequality. Although not explicitly addressed above, it is evident that research on commodities can aid IPE scholars in understanding what is driving patterns of inequality. For example, work on the political economy of the illegal wildlife trade has made important strides in tracing the linkages between poverty, inequality and illegal wildlife hunting (Duffy 2016). Similarly, research on the financialization of agricultural commodities illustrates how this phenomenon benefits large firms while worsening food insecurity in some of the world's poorest countries (Ghosh et al. 2012).

The political economy warnings of growing inequality, so to speak, have long been on the wall. Karl Marx's admonishment to not miss the capitalist forest for the commodity trees still resonates. So too does Karl Polanyi's (2001) insight regarding utopian free market ideologies and the dangers of commodification. Where and when extreme capitalist idealism enables people or life-giving aspects of the biosphere to be treated solely as commodities, Polanyi argued that these fictions would evaporate, and social and political conflict would be fuelled. The persistence of struggles over land, labour, money and other commodity 'fictions' in the twenty-first century speaks to the ongoing relevance of Polanyi's cautionary note.

In this sense, a strength of recent IPE scholarship on commodities is its newfound (or perhaps renewed) commitment to seeing the forest through the trees: A growing body of work on commodities pays attention to how patterns of global production and trade contribute to consolidating persistent patterns of inequality and exclusion, as well as to struggles over labour and land. To further advance this objective, Montgomerie (2017) advocates for more critical research in political economy, which requires rethinking what methods 'count'. In the realm of commodity politics, for example, adopting feminist, post-colonial, post-structural or queer and transgender approaches (see Griffin (Chap. 39), this volume) stands to deepen our understanding of the role that commodities play in the contemporary global economy.

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The Political Economy of Border Regimes

Alexander Clarkson

Introduction: The Borders of Europe

On 5 July 2017, Italian Interior Minister Marco Minniti held a speech in the Italian parliament that gained little attention in the rest of Europe (Minniti 2017). Yet the policy he had come to announce had significant implications for the future of immigration and border control in the European Union. With Italy facing another influx of migrants and refugees coming across the Mediterranean in unsafe boats, Minniti announced a new approach by the Italian state that would lead to its deepening involvement in the politics and security of Libya and the Sahel region. In the weeks leading up to Minniti's speech, rumours began to abound in Tripoli of Italian intelligence officers handing suitcases of cash over to key Libyan militia leaders. A few days after Minniti made his statement, an Italian naval squadron began to patrol Libyan waters while Italian Special Forces units initiated operations that would take them deep into Libya's Tripolitania and Fezzan regions. By the time dozens of Libyan regional and militia leaders were invited for a 72-hour meeting with senior Italian ministers in early August 2017 it was clear that Rome meant business. In a key passage of Minniti's June speech announcing this policy shift and explaining how the Italian state defined European borders, the scope of his government's ambition became clear:

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> It is not just the Southern border of Italy. Anyone who thinks the Sub-Sahara is just the border of Italy is making a dramatic error. The Sub-Sahara is the border of Europe. Its safety means a big deal for the future of the whole of Europe. (Minniti 2017, 40)

This remarkable shift in Italian foreign policy from a reluctance to use military assets to the kind of interventionism advocated by Marco Minniti has been driven by migration pressures reshaping the global political order. The impact of transnational migration has intertwined the political and economic development of states along key migration routes. Their responses to the challenges posed by the circulation of people across state borders have influenced underlying structural changes in the international state system. Since 2015, governments in states such as Italy have taken geopolitical risks to reassert control over borders and migration that would have been considered unimaginable in the 1990s. Forms of neo-colonial intervention never abandoned by established great powers such as France or Russia are being emulated by a much wider range of states under pressure from their own citizens to limit migration. In a world in which migrants experience state surveillance in European city neighbourhoods as well as on the porous borders of distant states deep in the Sahel region, the social dynamics of mass migration have been key to eroding the boundaries between domestic and foreign policy.

Push and Pull: Early Theoretical Perspectives

As transnational diasporas became more entrenched through such migration processes, the consequences of military interventions to secure supposedly vulnerable borders began to have swift domestic political consequences for the states doing the intervening. In his work on the emergence of European border regimes, Didier Bigo pointed out that by the 1980s the circulation of migrants across borders connected states at each particular stage of a migration route (Bigo 2004, 74). As is explored in more detail in James Busumtwi-Sam's chapter in this book (Chap. 12), migrant countries of origin have witnessed significant economic growth generated through remittances from their diasporas. Such financial flows are as significant to the social development of European settler diasporas, whose presence in African states is a product of colonial legacies, as they are for migrants from African or Middle Eastern states, whose settlement in Europe is a product of post-colonial labour migration (Acemoglu et al. 2001, 1373). The movement of large numbers of people through states along migration routes has also consolidated the local influence

of economic actors that profit from assisting or exploiting migrants. At the other end of such transit routes, countries of settlement developed economic structures based on easy access to inexpensive migrant labour as well as the emergence of new forms of diaspora-driven trade (De Haan et al. 2002, 39).

In the final decades of the twentieth century, a highly segmented understanding of political and economic structures shaping transnational migration defined the study of its social impact in the humanities and the social sciences. Pioneering studies by Everett Lee emphasised the role of 'push and pull' factors that informed the decisions of migrants to take the risky decision to move to another society (Lee 1966, 55). A concept that defined the basic parameters of the study of migration for decades, academic as well as political debates focused on the interaction between factors in a country of origin that impelled individuals to leave and those economic factors in a country of settlement that drew them in. Studies in disciplines such as international political economy, sociology or history were dominated by fierce debates over which economic or political dynamics played a central role in shaping the balance between push and pull factors (Zimmermann 1996, 96–97).

Thus, studies by migration scholars such as William Alonso examined how differences in pay, employment, geographic distance and local infrastructure could play a defining role in shaping the decisions of individuals to relocate from their country of origin (William 1980, 404). During this period disagreements remained fierce between those who focused on a 'gravity model' which emphasised the centrality of specific regional centres of economic production in drawing in migrant labour and those who developed a 'radiation model' of migration that set out how technological change was altering the calculation of migrant labourers in a way that made physical distance from a country of settlement less central (Vanderkamp 1977, 90–91). The work of Frank Thistlethwaite explored how early industrialisation interwove rural-to-urban migration within states with broader processes of migration between states in an attempt to develop a more comprehensive understanding of how economic transformation shapes population movement (Thistlethwaite 1954, 11–12). Ground-breaking studies by Aristide Zolberg (1989, 418) and Myron Weiner (1992, 98) looked at how migrants became aware of economic opportunities in countries of settlement through communication with diaspora communities.

Throughout the 1950s and 1960s this conceptual dichotomy between labour-exporting and labour-importing states shaped academic debate as well as state policymaking. In a Cold War environment where fortified borders between the Soviet bloc and the West limited population movement, states had the space to develop institutional mechanisms to control migration

processes. Faced with labour shortages in the wake of the massive population losses of the Second World War, the governments of West Germany, the Netherlands, France and other states at the heart of a nascent European integration process recruited migrant workers from societies they believed to be most compatible with their own on a temporary basis (Schönwälder 2004, 253). In North America the need for cheap workers in agriculture and industry led the US government to enable importation of workers from Mexico and Latin America in ever greater numbers (Frisbie 1975, 6). On a global scale, United Nations agencies such as the International Organisation for Migration (IOM) or the United Nations High Commissioner for Refugees (UNHCR) focused on coordinating the movement of people between states that were clearly defined as either targets of inward migration or producers of outward migration (Koch 2014, 20).

Centres and Peripheries

In the first decade of the guest worker programme the basic assumptions structuring systems designed to balance the needs of labour-importing and labour-exporting states did not experience fundamental re-evaluation. Studies by scholars from a Marxist perspective such as Hartmut Esser (1985) and Etienne Balibar (1991) were deeply critical of the exploitation of temporary migrant labour that remained embedded in the structure of guest worker systems. Yet these models still assumed that states that had become countries of origin for immigrant diasporas were permanently trapped in the role of economic peripheries subordinated to European and North American metropoles. Despite greater sensitivity to the structures of worker exploitation underpinning guest worker systems, their most ardent critics effectively took Western domination of the global economic order for granted. Even influential work by sociologists such as Stephen Castles, that developed a trenchant critique of how guest worker systems deepened social and ethnic hierarchies in countries of origin as well as countries of settlement, rarely questioned a centre-periphery model that shaped these theoretical frameworks (Castles 1986, 775).

The focus of research exploring borders, migration and diasporas in the final decades of the twentieth century was therefore often driven by two problematic suppositions. Theories of diaspora mirrored an understanding of migration as a product of West-centric power structures in which the social position of diaspora communities in Europe and North America was clearly subordinate to that of more established social groups. When it came

to theories of migration, research focused on points of departure and arrival that tended to assume an asymmetric power relationship between labour-exporting and labour-importing states.

Yet the impact of the collapse of the Cold War order in 1989 on the global economic system indicated that other factors needed to be looked at in more detail. In the final stages of the Cold War, class, generational and political tensions within diasporas that did not match the dominant binary ideological divides of the period became a matter of growing concern to policymakers (Lerman 1987, 12). The way such communities deepened connections between states along migration routes at a moment when the fortified borders of the Cold War period were falling apart demonstrated how such processes of population movement were creating transnational security challenges that could not be contained without multilateral cooperation. While states with major centres of production and capital accumulation were still the central destination for global migration routes, economic and political pressures migrants faced in their attempts to cross borders meant that large numbers of people often had to settle in states along these routes rather than struggling to reach their final goal (Bredeloup 2012, 459). Though the West still drew in large numbers of migrants, by the early 1990s the economic strength of key states in Latin America, Asia and Africa generated demand for cheap labour that reshaped such migration flows. Linking all these factors was a post-Cold War permeability of state borders enabled by technological shifts in transport and communications (Castles 1986, 776). Not only were there more migration routes and more labour-importing states, there were also many more people travelling across borders that states were less able to control.

In an environment in which global migration patterns seemed in flux, European political debate in the early 1990s was heavily influenced by a strong public perception that a relentless flood of migrants was poised to overwhelm the social welfare systems and cultural cohesion of the West. During a period in which a newly reunified Germany struggled to cope with internal migration from East German to West German regions as well as external migration from Turkey, Eastern Europe and the former Soviet Union, research in response to this pervasive sense of crisis, such as the work of Rainer Ohliger (1998, 167) or Ulrich Herbert (2001, 11–13), focused on migration as a one-way process. During the same period, economic expansion in the US and China drew in cheap migrant labour in ways that combined internal migration with an influx of migrants from neighbouring states (Roberts 1997, 251). Debates over borders, migration and integration focused on countries of settlement and often struggled to keep up with the sheer variety of global migration processes taking shape after 1989.

Despite fundamental structural shifts in the world economy, this tendency to view migration as a fixed process in which workers and refugees are unswervingly progressing from supposed geopolitical peripheries to dominant metropoles has therefore remained a persistent conceptual model. The reordering of the global system in the wake of China's rise and the USSR's fall has, however, also spurred extensive research that has opened up new questions about the extent to which global migration patterns are defined by an entrenched asymmetry of power between the West and the wider world (see Black and Hibbeln (Chap. 40), this volume). Particularly crucial in this regard has been the work of researchers such as Ronald Skeldon, who have examined how rural-to-urban migration in China has had extensive knock-on effects on migration flows between states in Asia and Africa (Skeldon 2006). Reflecting the wider restructuring of the global economic system, migration to Europe and North America has become only one of a range of options migrants can seek out.

The emergent understanding of migration as a multifaceted process between every global region reflects shifting theoretical perspectives towards the international economic order. Rather than understanding it as a space defined by a dominant West and peripheral rest, since the early 1990s the work of theorists such as Giovanni Arrighi (2005, 86–87) and Brigitte Young (2010, 260) has placed global flows of capital, trade and people in an interconnected framework linking established with emerging centres of economic and political power. As a consequence, intensified interest in internal and external migration patterns in China, Indonesia and other states in the Asia-Pacific region has come to reflect a shifting strategic balance driven by their growing economic and military power. By drawing in migrant labour from less prosperous states around them, this shift in migration patterns seemed to symbolise the expanding influence of non-Western actors over the direction the globalisation process is taking.

The Historical Continuities of Global Migration

In a geopolitical context shaped by fluctuating power structures, widespread concerns in Western as well as non-Western states over the potentially destabilising effects of transnational migration have led to a reconceptualisation of what constitutes legitimate state action when it comes to reasserting control over borders. The work of Didier Bigo (2014) and Ruben Andersson (2014) has explored how an intermingling of concerns over migration, terrorism, organised crime and energy security has led to a dismantling of barriers within

an integrated European political space while expanding the space outside it defined as part of a collective border zone. Under such pressures, border regimes to limit migration are no longer just limited to a fixed boundary between states. Instead they reach over much wider territorial and social spaces in which security assets are used far beyond the borders of the European Union, US, China and other global powers to control and deter global migration flows. From Italian Special Forces operations with Libyan militias against people smugglers to police deportations from cities at the heart of the European Union, the enforcement of border controls is reshaping the social order in countries of settlement as well as countries of transit and origin (Galtier 2017). While diasporas create community spaces that cut across national boundaries, in the name of reasserting the primacy of boundaries, the EU and other major geopolitical actors have created systems of militarised border control that have intensified transnational links between security services in states along migration routes.

While this strengthening of border regimes attracted significant attention in the wake of the European refugee crisis of 2015, depictions of these dynamics as entirely the product of recent political developments are problematic. As disciplines that emerged during the twentieth-century consolidation of the nation state, migration studies and international political economy were shaped by a wider social consensus that the ability of state institutions to control population movement was a historical norm. This understanding of what constitutes 'normal' border regimes continues to provide the basis for policy recommendations over how state institutions should manage them among a considerable amount of academic work in the humanities and social sciences. Early twentieth-century ethnographic and sociological studies of immigrant communities anchored by a theoretical framework shaped by the Chicago School presumed that the state boundaries and economic power structures of the high industrial period would remain fixed (Castles 2007, 356). With state-coordinated guest worker systems and recruitment of workers from imperial spheres of influence, the institutionalisation of migration studies as an academic sub-discipline in universities coincided with a period in which the boundaries between states and societies seemed clearly defined.

Yet even during this high point of state-coordinated migration, other patterns of migration persisted that did not mesh well with theoretical models based on a notion of clearly defined boundaries between geopolitical centres of power and supposedly peripheral societies. In the aftermath of two world wars, mid-twentieth-century states struggled with the task of resettling millions of displaced persons who had no chance of returning to countries of origin from which they had been expelled (Ahonen 2014, 601). In the process

the social order of key states was transformed, with associations and cultural networks based on shared regional origins sustaining strong links between growing cities and often distant rural regions despite ongoing conflicts. As decolonisation took hold and emerging states in Africa, Asia and Latin America struggled to control their borders, the impact of demand for labour in new megacities led to transnational flows of migration that overlapped with routes to Europe or North America and connected them with alternative flows of goods and people (Paasi 2005, 664). While migration studies dealt with these various patterns as distinct phenomena, on the ground individuals often moved from one pattern of migration to another in the search for opportunities in the course of a single lifetime (De Haas 2005, 1275).

This interaction between refugees, internal migrants and transnational diasporas is often portrayed as a product of late twentieth-century globalisation. Yet this underplays the extent to which they build on pre-existing patterns of mobility that already existed before the First World War. European, Ottoman, Moghul and Chinese empire-building projects in the Early Modern period intensified seaborne and land trade links that have survived in various guises to this day (De Vries 2010, 73). Colonial settlement and the slave trade established a movement of populations between Europe, Africa and the Americas that has never come to a halt. Once various trade and migration routes became intertwined through integrated transport links fostered by empire-building projects in Africa, the Middle East and Asia, migration routes proved resilient even after these European empires began their long retreat (Hugon 2010, 168).

In some cases, the creation of such integrated geopolitical spaces reinforced pre-existing trade and migration networks. In their various guises, the Ottoman and Republican French empires consolidated political control over polities in Africa and the Middle East whose links had already been deepened over centuries through trade routes from the Sahara to the Levant over which merchants moved natural resources, goods and people. In a similar fashion, the Russian and British empires built on pre-existing lines of supply across Eurasia or through the Indian Ocean and the South China Sea that had allowed major trading and production hubs to flourish long before the first Tsarist bureaucrats or East India Company officials asserted control over them.

Despite the Algerian War, the ability of the French state to continue to maintain such a sphere of influence across the Sahel sustained a relatively unified regional political economy that ensured the persistence of patterns of migration between West African states as well as between Africa and France. Consequently, extensive movement of people between francophone states in

the region as well as a two-way process of settlement and migration between the region and France has continued despite decolonisation. Similarly, though the collapse of the Ottoman Empire meant that none of its successor states were able to exert an equivalent level of hegemony over the Middle East, the interwar European spheres of influence in the region and the emergence in response of consolidated Arab states whose legitimacy rested on pan-Arab ideologies fostered a significant degree of free movement. Though couched in the language of Arab solidarity, this willingness of Arab states to allow citizens of other societies in the region to move across borders sustained trade and migration patterns that still reflected socio-political structures with roots in the Ottoman period (Russell 1988, 166).

With the expansion of Mughal power in India, the rise of the Manchu dynasty in China and the growing role of European shipping in the Asia-Pacific area, the intensification of trade and migration in the Indian Ocean and South China Sea also developed in ways that would still be recognisable today. The connected chain of seaports that became the central focus of conflict between rival empire-building projects created the basis for an everyday movement of sailors, settlers, soldiers and traders by the late seventeenth century along routes through which migrants and refugees still move in the twenty-first (Hayton 2014, 36). Established pilgrimage and trade routes between Southeast Asia and the Arabian Peninsula formed migration patterns that continue to attract workers from countries such as Indonesia or the Philippines to the resource-rich Gulf monarchies. That population movement throughout the Indian Ocean remained interconnected with migration processes radiating outwards from the South China Sea indicates how links developed by European states during the height of their imperial expansion built on pre-existing economic and social interactions that continued to evolve after decolonisation brought this ephemeral moment of Western domination to an end (Ewald 2000, 74).

The existence of transnational diasporas has been shaped by such processes of empire-building, global economic integration and migration that have evolved since the Early Modern period. Jewish, Armenian and Tatar groups were already creating identifiable transnational networks in an age in which the Habsburg and Ottoman dynasties were the dominant powers in Europe (Trivellato 2004, 40–41). With each step towards greater integration of the global economy the number and scope of such diaspora communities has continued to grow. By the early nineteenth century, Afro-Caribbean diasporas had become an identifiable feature of the transatlantic world, with slaves and freemen to be found in every major port in the Americas and Europe (Patterson and Kelley 2000, 15–17). In the territories around the Indian Ocean and

Southeast Asia, Chinese, Arab and European traders had become the focal point of diasporic communities as rival empire-building projects led to the political reorganisation of vast swaths of coastline (McKeown 1999, 313). Interconnected trade and migration routes that remained impervious to the shifting fortunes of such empire builders also became a means through which those displaced by conflict could flee to safer territory.

Conclusion: Blurred Lines

The erosion of the ability of states to control borders after the fall of the Berlin Wall did not unleash some new form of transnational migration. Rather, economic growth across Asia, Africa and Latin America has revived established migration routes between global regions in parallel with continued population movement to North America and Europe. These patterns of migration between old and new economic centres of power have always been in both directions, as soldiers, settlers, workers and traders continue to move back and forth between European powers that once aspired to control global empires and a wider world where migrants circulate through revived links between China, South Asia, Africa and the Middle East.

Particularly in regions such as the Sahel or Central America, states that are crucial parts of such migration routes have become way stations between countries of departure and countries of arrival as well as places of settlement for migrants unable to continue their struggle to overcome forbidding barriers to reaching their final goal (De Haas 2008, 1309). In an environment in which global economic integration and endemic conflict have fuelled migration across long-established routes it was perhaps inevitable that a more expansive understanding of how to reassert state control over movements of people would emerge as a key factor in the politics of old and new great powers. For states such as Italy, Brazil or Russia, not only is the intensification of migration processes becoming the focus of considerable public disquiet, the impact of migration patterns on the economic structures of neighbouring states affects a whole range of other strategic concerns involving regional stability, energy security and counter-terrorism (see Krapohl (Chap. 6), this volume).

Under such pressures, the interventionism embodied in the willingness of Marco Minniti and the Italian security services to initiate operations in states along migration routes across the Sahel will not be an exception. Rather, it is a harbinger of a geopolitical order where economic centres of power such as

the European Union, US, China or India use their economic and security assets to manage migration and border control far beyond their actual state boundaries. As Bigo has pointed out, the European Union's consolidation of an internal borderless space has led to a gradual expansion of its border regime far beyond its external state boundaries in order to reassert control over who is entering and who is leaving its territory (Bigo 2014, 219–221). The influence of North African diasporas in Europe and large numbers of Europeans settled in the Maghreb and West Africa also creates additional pressures for European Union member states to remain a primary security actor across these regions. In a similar fashion, to control inward migration and protect their own nationals settled in neighbouring states, the American and Chinese governments have established permanent military and policing operations far beyond their own borders (Marat 2015, 129). Often intertwined with campaigns against smuggling and terror networks, this securitisation process is blurring the divide between foreign and domestic policy in a way that further integrates states connected to one another through deeply entrenched migration routes.

The impact of the global politics of mass migration and transnational diasporas presents a paradox. Both have been a key component of the global economy since the intensification of transcontinental trade and communication in the seventeenth century. Yet the increasing social pressure generated by population movement along long-established migration routes is also reshaping border control regimes that are pillars of the global state system. Whether such expansive border regimes can help provide the basis for a stable geopolitical order remains an open question.

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"Non è il confine Sud dell'Italia. Se qualcuno pensa che il Sub-Sahara sia il confine Sud dell'Italia, fa un drammatico errore. Il Sub-Sahara è il confine dell'Europa.", Minniti, Speech to the Senato della Repubblica, 5 July 2017, 40.

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37

Internet Gambling and International Political Economy

Andrew F. Cooper

Locating the offshore in the international political economy (IPE) is a complicated enterprise. In a manner anticipated by Susan Strange in her book *Casino Capitalism* (Strange 1986), the offshore is commonly depicted as part of a fictionalized script in that the activities of those jurisdictions appear disconnected from the real economy (Palan 2006). The dominant image is one of artificiality, above all via the myriad of offices (or mail boxes) of convenience in Offshore Financial Centres (OFCs) or tax havens. Offshore jurisdictions have been viewed as benefiting from the de jure attributes of sovereignty or territoriality but with little or no de facto capacity (Drezner 2001; see also Sharman 2017). That is to say they were taken to be little more than nebulous sites acting as receptors, not active agents in the shaping of the IPE.

Yet, at odds with this stereotyping, for many small island states, offshore enterprises are thoroughly embedded in their political and social fabric. Without the range of options open to larger industrial countries, and facing precarious conditions in established business—whether in commodities or tourism—embracing other dimensions of a risk oriented culture was a necessity. Rather than being located at the margins, activities associated with the offshore was the route out of the condition of vulnerability (Cooper and Shaw 2009).

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The contrast between the tendency to stigmatize the offshore in generalized terms as a 'murky' site beyond the domain of sovereign control and specific cases which highlight the linkages between new innovative technology-driven service industries and the purpose of the governments of small offshore states comes to the fore in the case of Antigua and the Internet gambling (IG) business (Cooper 2008, 2009, 2011).

From an international political economy dimension, the case of Antigua and IG is significant for a number of reasons. At odds with the fictionalized script, the Antiguan government defended the IG industry on the basis that it offered sophisticated employment opportunities, including call centre workers, marketers, and IT professionals. In doing so, Antigua has engaged since 2003 in a protracted and risky struggle at the World Trade Organization (WTO) over the United States' efforts to restrict the industry. Such a challenge was an unprecedented action, in that it was not only the first case against the United States at the WTO by a small island country but one that focused on the digital economy. Not only does the case challenge many of the standard assumptions about the workings of the international trading system in the WTO context, it also involves an industry very different from the stereotype associated with the Caribbean regional economy, that is to say a primary commodity such as bananas or sugar (see Heron (Chap. 10), this volume).

As such the case not only represents a reputational push back in the context of offshore stigmatization, it constituted a rebranding of the dynamics of multilateral trade negotiations. At the core of the case for Antigua was whether a US ban on online gambling violated a 'specific commitment' by the United States to liberalize trade in a component of 'recreational services.' That is to say, the case rested on the issue of whether or not the United States had a legally binding agreement under the General Agreement on Trade in Services (GATS) to which it must live up. However, when the WTO Dispute Settlement Body in 2007 found in Antigua's favour, the United States ignored the ruling, leaving the case in an awkward limbo. If in procedural terms the case highlighted resilience not vulnerability, on substance the case reinforced the image of classic asymmetry.

Differences Between OFCs and the IG industry

One unique feature in the IG industry's character is a declaratory preference for a regulatory model. Whereas the primary motivations for the ascendancy of OFCs have been to avoid rules and standards, the motivations to go remote

in the case of the gambling industry appear to be more splintered. As in the case of OFCs, one pull was the escape from high taxes, especially from the United Kingdom. Added to this motivation, however, was the desire to escape what was considered the prohibitionist regime enforced by the United States. From this perspective, regulatory practices were the lesser of two evils (Cooper 2008).

Internet remote-gambling companies paid licence fees in return for the right to operate out of Antigua's sovereign jurisdiction. The general attractiveness of this trade-off (with legitimacy exchanged for the collection of rents) can be gauged by the fact that by the end of 1999 Antigua had become the operating site for 119 licenced Internet remote-gambling operations, providing the government with more than US $7.4 million revenue and accounting for more than 10 per cent of Antigua's gross domestic product.

At odds with the external stigmatization of the industry, the regulatory authority in Antigua (the Department of Gaming in the Financial Services Regulatory Commission) showcased a high-end mode of regulation. As one state official described the regime: 'For us in the Division of Gaming, it's not about having a multitude of licences in the jurisdiction. We're looking for premium operators...that will operate within our laws and regulations and best practices and good corporate governance' (Campbell 2007a).

A second distinguishing mark of the IG industry vis-à-vis OFCs or tax havens relates to matters of transparency. Although companies such as Mossack Fonseca at the centre of the Panama Papers (and Offshore Leaks investigation) case advertise for clients, the basic rationale of the OFCs is to provide corporations and rich individuals with anonymity. The culture of the industry is therefore one of considerable secrecy. The IG industry has some of the same attributes, particularly with regard to technological innovation and in some cases revenues. However, by necessity, IG is not characterized by its secrecy. It requires public relations and advertisement to attract clients. Indeed, many Internet remote-gambling entrepreneurs drew attention to themselves by appearing at public events. The major pioneer of Antiguan IG industry, Jay Cohen (an expatriate American), was even interviewed on CBS's 60 Minutes. Most made appearances at trade shows. One of the primary aims of the WTO case was to allow for advertising as part of a legitimizing process, whereby major Internet search engines as well as traditional media would allow advertisement of sites, such as those located in Antigua.

The transparency of the industry opened up further through the technical processes associated with Internet remote gambling. Many of the major banks (those based in Switzerland and Liechtenstein, to name some of the best-known illustrations) have long made a point about selling tax avoidance

services and thus reinforce the culture of secrecy (see Vlcek (Chap. 22), this volume). Because of their very different client base, the top-tier banks have little appetite for facilitating the gambling industry. Transactions in the IG industry at least in the initial stages therefore moved over to other mechanisms, whether traditional (Western Union and MoneyGram) or non-traditional (Neteller and other Internet devices).

A third and, from a developmental perspective, arguably the most important feature deals with the issue of the structural opportunities connected to the two industries. In some cases the creation of OFCs has brought about fundamental shifts in economic fortune. The Cayman Islands rose on the back of this industry to become, by some estimates, the fifth-leading global banking centre. And the British Virgin Islands and Bermuda moved to become huge providers of foreign direct investment (Palan 2006: p. 4). In employment terms, nonetheless, there were always some basic limitations put on the industry. One lingering issue has been the proclivity of some OFCs to offer tax concessions without the need for a physical presence. This issue in turn relates to the contentious issue of 'ring fencing,' where non-residents benefit from tax advantages not made available to residents.

Internet remote gambling is highly mobile, but there are opportunities for a physical presence, and some local employment, through its activities. At its peak in 1999, it is estimated that the Internet remote-gambling business employed 3,000 people in Antigua (Government of Antigua and Barbuda 2003; Cooper 2008). Through the course of the WTO case, the employment factor remained at the core of Antigua's argument. Not only did the IG industry present a viable source of employment vis-à-vis other traditional choices, it maintained what the government considered a more development-friendly option over other possibilities. As one state official stated: 'The industry provides much needed employment to thousands of our bright and computer-literate young people. It has provided them with a means of livelihood without which they have been forced to turn to unlawful activity, such as the vibrant drug trade that now plagues the Caribbean region' (Ackman 2004; see also Clarkson (Chap. 36), this volume).

The reference to computer literacy references the last major point of divergence between the two industries. The OFCs—in a similar fashion to the bricks and mortar casino form of gambling—exist as a 'mature' industry, the origin of which goes back to the nineteenth century, with most of the late comers in place by the 1960s. The IG industry, in complete contrast, emerged only in the mid-1990s. Irrespective of the temporary nature of many of the jobs in online gambling, either because of periodic shakeups in the industry, or because of the need for more staff at peak moments in the year (particularly

with respect to offshore sports betting), there was a need for people with a basic information technology background.

The Asymmetrical Context of the WTO Case

It is assumed with experience that the structure of the multilateral trading system contains a bias towards big actors (Guzman and Simmons 2005). Access to the key processes of the system—most notably through the institutionalized workings of the WTO—is considered to be unevenly distributed. The large actors, from both the traditionally dominant North and the emergent Global South (which includes countries such as China, India, and Brazil), are viewed as overriding players that make the rules, while the smaller players are forced to accept outcomes often inimical to their interests.

The only way to counteract this problem is for the smaller countries to group together in coalitions. This collective approach has been deployed in some cases through the formation of mixed coalitions, notably the Cairns Group in agricultural trade negotiations, where middle- and smaller-size countries combine forces (Cooper and Higgott 1993; Higgott and Cooper 1990; Cooper 1998). But for the most part, this type of coalition features countries that are members of the G77, ranging from the G20 agricultural group to the group of 'small and vulnerable economies' (Narlikar 2003).

The original demandeur for the entry of the GATS into the international trade system came from the United States. Pushed by multinational companies such as American Express, the United States insisted from the time of the Uruguay Round that the WTO must include rules governing services (Spero and Hart 1997). Moreover, as with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the United States continued to act as the disciplinarian of the system. In just one of several examples of this adopted role, the United States confronted Antigua in the early 2000s over blocking AT&T in obtaining a licence for the sale of mobile telephones—a decision that, in the American perspective, was in violation of GATS.

Turning the tables on the United States by taking the case on IG to the WTO was a highly ambitious and risky strategy, given the structural imbalance between the two countries. With a population of under 100,000, and an economy approximately 0.007 per cent the size of that of the United States, the case has all the flavour of what Robert Keohane has termed a struggle between Gulliver and a Lilliputian (Keohane 1969). To give just one illustration of the extent to which its resources are outmatched, Antigua's ambassador at the WTO at the start of this case (Sir Ronald Sanders) also

served as the High Commissioner to the United Kingdom (Beattie and Williams 2005). In contrast, the United States could bring to the negotiations a strong team from the US Trade Representative, the Justice Department, and the Department of State.

As the case progressed, Antigua picked up some support from other members of the WTO, including a number of larger actors that adopted the status of 'third parties' in the case. On a formal state-to-state basis, nonetheless, Antigua from the outset took on the United States by itself. Unlike in other protracted and high-profile Caribbean-related WTO cases, in particular the long and bitter 'banana war,' the Caribbean Community and Common Market (CARICOM), the Organisation of Eastern Caribbean States (OECS), and the Eastern Caribbean Central Bank have not played major mobilizing roles in drumming up support for Antigua's position, although the OECS's technical mission to the WTO offered limited help.

Not only was Antigua trying to defend its interests in a services area, it was doing so in a sophisticated subset of the area that had considerable potential to 'leapfrog' over the established bricks and mortar component of the gambling industry. Antigua had not built up a physical replica of the Las Vegas or Atlantic City casino model—nor even an equivalent of a Mississippi steamboat floating gambling site. The Antigua gambling industry was a virtual one, located in cyberspace. If a still-rare example of a challenge under GATS, it was more remarkable in its position as the first WTO dispute revolving around Internet sites.

Given these innovative features, the salience of the case for IPE analysis goes well beyond the technical/legal modalities and is further reinforced by the distinctive nature of the WTO process. The US negotiating performance featured a combination of disengagement and aggressiveness. The US skill set was diminished by its failure to take its original specific commitments under the GATS as seriously as it should have. Moreover, when the United States became more engaged in the case, it did so in a manner that put coercive and unilateral tactics ahead of negotiation skills. By way of contrast, Antigua was able to compensate for its lack of resources by a high degree of outsourcing. At the formal level, Antiguan officials presented themselves in a skillful manner. However, underpinning and underwriting the case for Antigua was the highly globalized IG industry.

Antigua did engage in public diplomacy, but this approach was targeted at the wider, international public opinion. For one thing, state officials argued that the creation of an IG industry was a successful extension of 'open' market strategies promoted for small countries such as Antigua by international institutions such as the World Bank. The barrier to consolidation of this still

fragile market was the promotion of a prohibition regime by the United States, which caused a chill in the industry.

For another thing, Antigua appealed to its record of heightened regulation since the start of the offensive against OFCs. In terms of process, great emphasis was placed on Antigua's willingness to make concessions so long as these were made as part of a bona fide mode of consultation. As an advocate for Antigua phrased it: 'We are trying to influence public opinion as much as we can as a small country. We're hoping our willingness to compromise will get us the right ear and a negotiated solution will come about' (Sparshott 2006).

In terms of substance, considerable emphasis was placed on the great strides Antigua had made on establishing an orderly regulatory framework for the Internet gambling industry. The message from state officials throughout the case was that Antigua, notwithstanding the targeting of Jay Cohen and other forms of legal action, had nothing to be embarrassed about: 'It is more than just a little ironic that the United States Department of Justice has chosen to single out for prosecution a well-known gaming service provider from Antigua, a jurisdiction that has been leading global efforts to license, regulate, supervise and oversee a robust yet clean and safe gaming industry over the internet' (Ashe 2006).

It was clear to Antigua that such public diplomacy by itself was not going to be enough to pursue a winning case. What was needed for success was good technical preparation and support. Given the enormous cost and sophistication of such an approach, some considerable offloading of responsibility for the case had to be given over to the online gambling industry itself. As part of the outsourcing approach, the IG industry supported the Antiguan WTO case. In explaining how Antigua was able to take on the burden of such an onerous case, Finance Minister Errol Cort revealed to a local reporter: '[We have been] able to muster the resources...with the help of the industry' (Campbell 2007b. See also Blustein 2006).

The extent of this support can be gauged by the fact that Antigua was able to employ two very different types of lawyers. One component of its legal apparatus was handled by Mark Mendel, a self-styled maverick who was the public face of the case. Mendel (a partner of the firm Mendel Blumenfeld of El Paso, Texas) was a friend of Jay Cohen's, and although he had no deep expertise in international trade law, he added a robust sense of emotional commitment to taking on the United States generally and the US Justice Department in particular. In contradistinction to Mendel's public enthusiasm, a top-flight legal team (with Craig Pouncey and Lode Van Den Hende as the principals) from Herbert Smith's trade and WTO practice in Brussels provided the deep expertise needed to battle the United States. 'Herbies' has

been one of the world's leading firms for international litigation, with over a thousand lawyers. With its headquarters in London and other offices in Europe and Asia, it also has extensive experience working for the United States on other controversial cases, such as those involving bananas or hormone-treated beef (Rovnick 2004).

Winning the Battles But Not the (Protracted) War

From the start of the WTO case in 2003, the United States chose not to deal directly with Antigua. When Antigua first attempted to engage the Americans in consultations on the grounds that the US ban on Internet remote gambling violated its commitments under GATS (which sought to create equal conditions of competition for domestic and foreign service suppliers), these requests were rebuffed. Subsequently, Antigua requested the establishment of a WTO Dispute Settlement Panel to adjudicate on the issue. In the same obstructionist tone, the United States refused to agree to the composition of a panel to hear this complaint. So finally, at the end of August 2003, the WTO autonomously established a dispute settlement body panel chaired by K. Zuthshi of India. Through this period of pre-negotiation, the United States failed to plan its defence in any coherent fashion. No attempt was made to look seriously at the structure of the US gambling industry or to engage officials who had detailed expertise at the local level. A Georgetown University professor labelled this deficiency 'a mistake [in negotiating stance] that could have been avoided had there been effective consultation between US trade negotiators and the legions of state-level officials who regulate [the] industry on a day-to-day basis' (Stumberg 2005).

This neglect indicated the severe underestimation by the United States of the Antiguan negotiating team's capability to expose the gaps and inconsistencies in the US defence. One major gap that was exposed focused on the narrow concern in the 1961 Wire Act. This legislation prohibited the placing or taking of sports bets across state boundaries using telephone lines or wires. No mention was made of the Internet, or for that matter of other forms of gambling such as casino games, poker, or lotteries.

This gap in turn magnified the blatant inconsistency between the prohibition regime promoted against the Internet remote-gambling industry and the current federal and state laws permitting both Internet betting on horse racing and Internet gambling operated by North American indigenous tribes both within individual states and across state borders.

This perception that it was the United States—not Antigua—that was woefully ill-prepared to take on this case was increased considerably when it became apparent that the American negotiators had little understanding of what the United States had or had not signed up to in the original GATS as settled in 1995. Article 21 of the GATS allowed a member country to file clarifications to their original schedule of commitments, as some countries chose to do. The US commitment to free trade in 'recreational services,' however, contained no such clarification. As a US trade negotiator accepted ruefully after the WTO Dispute Settlement Panel largely accepted the claim of Antigua in March 2004: 'It didn't occur to us that this could include gambling until Antigua brought this case in 2003...Clearly this was an oversight in the drafting' (quoted in Lever 2007).

The response by the United States to this substantive setback ran on two tracks. At the operational level, the United States moved to have the case moved beyond the dispute panel stage to the appellate body, where it hoped to correct the result. At the declaratory level, American negotiators decried the negative conclusion of the panel. Robert Zoellick, the then US trade representative, criticized the decision as 'absolutely outrageous,' given the vehemence with which the United States has opposed offshore online gambling as a criminal offence: 'I think this is a very deeply flawed panel decision...the implications are very bad. If this isn't an exception...I don't know what is' (quoted in Vallerius 2004).

The appellate body did indeed temper much of the panel decision in favour of the United States when it reported in November 2004. Most significantly, it provided legitimacy to the US argument that it was promoting the prohibition regime because of the requirement to protect public morals or to maintain public order. Nonetheless, it maintained Antigua's fundamental point of contention that there was inconsistency between the US prohibition on Internet remote gambling (ostensibly on moral grounds) and the allowance of one type of gambling activities under the Interstate Horseracing Act.

Under these conditions the United States shifted its approach to a far more aggressive stance. Reverting from its disengaged form of activity in the multilateral sphere, the United States took robust unilateral action to transform the chill on the entire global IG industry. The most decisive move in this new approach was the sudden arrest of David Carruthers, the chief executive of BETonSPORTS, one of the leading offshore online gambling companies, as he was travelling via the United States. If in the case of BETonSPORTS, the main casualties were located in Costa Rica, there was

an acute spillover effect on Antigua with a marked cultural change. Whereas previously there was a visibility in terms of the public presence of the industry, this openness was eroded. Media interviews and contact information were reduced.

Lessons for IPE from the IG Case

The WTO case on IG remains important not only because of the massive asymmetrical divergence between Antigua and the United States but as a test for de-stigmatization of the offshore component of IPE. By taking the case to the WTO, where legal and technical arguments had predominance over the power distribution of the two protagonists, Antigua could also take advantage of the uneven approach the United States adopted to the case, with its shift from disengagement to aggressiveness. Although this approach allowed the United States to exert some control (by its coercive unilateral power directed at leaders of the offshore gambling industry), it also underscored US ambivalence to the WTO process. By comparison, Antigua demonstrated the importance not of intrinsic but of contingent resources (Habeeb 1988), where a small state directs a disproportionate amount of its capabilities on a specific issue or area.

Moreover, as time passed, the United States backed itself into a corner on the offshore IG case with far more complications than potential exit strategies being revealed. To keep up the negotiating pressure on the United States, Antigua filed for US $3.44 billion in annual compensation from the compliance panel established by the WTO (a vast amount given the size of Antigua's economy). But when the United States eventually announced in May 2007 that it would be non-compliant, by virtue of withdrawing its commitment on betting services under Article 21 of the GATS, it offered only $500,000 in compensation for lost annual revenue.

Rather than highlighting the benefits for a small country in dealing through the WTO, the end game reinforced the impression of asymmetry within the international trading system. After its loss, rather than negotiating with Antigua, the United States chose to make separate deals with the European Union, Japan, and Canada as compensation for the 'clarification' of its GATS commitments on betting services. Instead of the small country at the core of the case, it was other bigger countries and companies that gained tangible negotiating advantages (such as the Dutch mail carrier TNT, which won the right to compete with rivals such as FedEx within the United States).

Moreover, the concessions Antigua did receive through the WTO's binding verdict as announced by the final arbitrator panel report on December 21, 2007, proved counter-productive. Gaining the open-ended right to suspend copyright protections on US intellectual property to the sum of US $21 million a year—without any form of financial compensation—was not the outcome Antigua had wanted. Instead of bringing IG into the mainstream as a respectable and responsible industry, Antigua was being nudged towards other trade areas that create new problems in terms of its reputation because of perceived piracy and counterfeiting. US officials well beyond the final report could re-stigmatize Antigua on the piracy issue, 'To be clear, the United States will not tolerate theft of intellectual property and will take whatever steps are most efficient and effective to prevent this from happening' (Yamato 2013).

In the end, as the IG case demonstrates, it is outcomes not processes that matter to smaller states. The process followed in the IG case held considerable promise to deliver an outcome that was not only instrumental but symbolically important to Antigua. But the United States could simply wait Antigua out, as it did for well over a decade. By 2016 Antigua's patience with the negotiating process had been thoroughly eroded, with the focus of attention turning from enforcement of the settlement authorized by the WTO, to obtaining some bilateral deal with the United States based on (as yet unrealized) claims of fairness (*Jamaica Gleaner* 2016). But unlike a case such as the cotton subsides case brought by Brazil to the WTO, with the threat of cross-retaliation in terms of international property rights in compensation for trade losses, the United States did not settle in principle with the temporary use of cash payments and other means (Reuters 2013). On the contrary with the transition to the Trump administration, the United States became more explicit about its non-compliance. On the one hand, US ambivalence to the WTO turned into outright hostility. On the other hand, the risks to Antigua of utilizing cross-retaliation in terms of international property rights have been raised in a climate of escalation in terms of US trade tactics (Brown 2016).

Viewed strictly on the grounds of outcomes, therefore, the case falls back into the category of the conventional, another piece of evidence highlighting the limitations imposed on small states. Antigua's combination of agility and resilience was impressive. But without a tangible result of a positive nature, the more familiar frame of small state vulnerability in the IPE comes to the fore. Structural conditions could be bent by skillful and determined agency, but they could not be broken completely.

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38

Digital Technological Innovation and the International Political Economy

Irina Brass and David J. Hornsby

Introduction

The premise of inquiry for this chapter is rooted in the technological transformations we hear about and are being exposed to on a daily basis. These technological shifts are sometimes celebrated for their potential to address some of the fundamental public policy challenges of our time, such as providing new ways to access health and education. Similarly, they are questioned for their capacity to produce disruptive effects to the way we organise our social and economic activities, challenging fundamental rights such as privacy or established patterns of employment and trade (OECD 2017a). One aspect that is rarely contested, though, is that these technological changes are already taking place and are here to stay.

We are thus no longer looking into the potential benefits and challenges of the 'Fourth Industrial Revolution' (Schwab 2017). We are, in fact, living in it. The increased adoption of connected and intelligent objects coined the Internet of Things, the rise of the automatic enterprise, and the growing investment in cryptocurrencies are only some of the current trends that highlight the extent to which new digital transformations have penetrated core aspects of our lives.

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Several governments around the world are already weighing the benefits and challenges that these digital transformations bring to their citizens, economies, and foreign relations. Political, business, and social leaders are increasingly coming together in international fora such as the G20 and the World Economic Forum (WEF) to discuss coordinated policies that would enable their societies and economies to maximise the benefits of these technological changes while minimising their risks (G20 2017; OECD 2017b). Thus, there is increasing recognition that the technologies and processes that underpin these digital transformations, as well as their socio-economic consequences, are not confined to state boundaries and jurisdictions.

This chapter considers the disruptive role that emerging digital technologies and processes play in the governance and functioning of the international political economy. The chapter focuses on three main digital innovations: artificial intelligence, blockchain, and the IoT. We refer to them as disruptive digital innovations—rather than disruptive technologies—because they are underpinned by several technologies and processes, which taken together create new socio-economic patterns that affect the distribution of resources and power across the actors and structures that currently define the international political economy.

Connecting technology and disruption is rooted in the conceptual perspective of Joseph Schumpeter and his ideas related to innovation and 'creative destruction'. Schumpeter argued that technological innovation disrupts the organisation of society, politics, and the economy as it changes the conditions under which society operates (Schumpeter 1939). However, disruption theories do not focus solely on the undesirable consequences of innovation, such as market imbalances or suboptimal social outcomes. Rather, economies and societies are seen as constantly producing 'disruptive innovations', which in turn allow for business, social, and political regeneration (Christensen et al. 2016). Thus, this chapter aligns technology closely with the evolution of the international political economy, as a key factor in the creative reorganisation of the complex socio-economic systems that underpin it.

We begin the chapter by looking at the relationship between technology and the international political economy from a historical perspective. We adopt the 'Four Industrial Revolutions' model proposed by Klaus Schwab to highlight the extent to which digital innovations contribute to shifts that account to a new industrial revolution (Schwab 2017). We then explore in more depth how each of these digital innovations disrupts the practice of international political economy, focusing on three main dimensions: (a) the main regimes—understood as established patterns of cooperation – that currently structure the international political economy; (b) the distribution of authority between state and non-state actors; and (c) the distribution of resources between and within developed and developing states.

Technology and the IPE in Practice

To say that technology has fundamentally changed international affairs is not an understatement. The process of diplomacy and finance used to be slow and dependent on the delivery of physical communications, namely, letters—that could take weeks to receive and were subject to getting lost, damaged, or even tampered with. Access to information was highly restricted and controlled. Today, access to information is almost instantaneous with the advent of the Internet and digital tools that assist in deciphering and organising information in microseconds. The rapid collection of data and transfer of information are currently underpinning most structures of the international political economy, from global production chains, to the monetary and finance system, to foreign investment flows, or the transfer and protection of intellectual property.

Technology has also been instrumental in how the international political economy has evolved, often disrupting traditional practices and structures that foster economic growth and how states and non-state actors interact. Whilst it is beyond the focus of this chapter to go in depth into the evolution of the international political economy, it is worth noting how technology has been integral to the development of the world economy at various points. For conceptual ease, it is possible to connect technology to economic development over four periods. These periods are commonly referred to as 'industrial revolutions'.

First Industrial Revolution (1760–1840)

The First Industrial Revolution started in the late 1800s with the advent of technologies such as the steam engine that started the industrialisation and urbanisation of British and European societies, which had been largely agrarian and rural until this point. The steam engine enabled the mechanisation of production for things like textiles that increased supply and availability, making goods more readily accessible and cheaper to consumers. Technologies in this era also improved the capacity for movement of peoples and goods, cutting transit times, as well as the development of faster mechanised iron production processes—a key element for engineering, such as building bridges and buildings. In comparison to today, the technological development of this era is basic and simple, but the technology developed in this period underpins the contemporary economy and fundamentally shaped how states interact.

Second Industrial Revolution (1870–1914)

The Second Industrial Revolution is underpinned by technological developments such as the light bulb and electrification, the telephone, and the combustion engine. These technological developments enabled a widespread adoption of machine-based production processes which improved the quality and rate at which goods were produced. Further, this revolution introduced technologies that enabled the mass movement of people—connecting communities once remote and removed from each other. In particular, the widespread electrification of communities and use of machine tools in production resulted in a real surge in economic growth as production times and the capacity to transport goods over further distances was reduced, facilitating faster international trade and spurring an interconnectedness between states. Here, technologies developed and assisted the process of globalisation.

Third Industrial Revolution (1947–2010)

The Third Industrial Revolution is often called the digital revolution as this period saw the emergence of the personal computer, the Internet, and information communication technologies (ICT) like mobile phones. Based on the development of the digital circuit, this moment of technological change, which started in the latter half of the twentieth century, fundamentally reshaped the structure of the economy on a number of levels. It made it easier for private enterprise to reach broader markets; it quickened the flow of information and money between individuals, institutions, and states; and it expanded the types of services that are available to consumers. In addition, it had a significant impact on the production process with the introduction of automation that revolutionised how the assembly line works. In essence, the digital revolution influenced the process of globalisation by reducing physical and geographical barriers between economies and societies—enabling a greater degree of interconnectedness across states.

Fourth Industrial Revolution (2010 to Present)

The Fourth Industrial Revolution is a moment that many believe is upon us and is speculated to have significant implications not just for the global economy but also for the distribution of political and socio-economic authority. Klaus Schwab famously wrote (Schwab n.d.):

> The First Industrial Revolution used water and steam power to mechanize production. The Second used electric power to create mass production. The Third used electronics and information technology to automate production. Now a Fourth Industrial Revolution is building on the Third, the digital revolution that has been occurring since the middle of the last century. It is characterized by a fusion of technologies that is blurring the lines between the physical, digital, and biological spheres.

The Fourth Industrial Revolution promises to significantly reshape the global economy as new technologies change how production and consumption take place—moving beyond simple automation to technologies that maintain a degree of intelligence or rather a capacity to anticipate preferences or respond to defined problems that are small in scale and interconnected, disrupt traditional systems of governance and regulation, and even turn ways in which value is assigned, such as currencies, on their head. Some contemporary examples of how these innovations influence the practice and structure of international economic flows and politics are: artificial intelligence (AI), blockchain, and the IoT.

Emerging Digital Innovations and Their Disruptive Effects on IPE

Artificial Intelligence

The advent of AI maintains significant implications for the international political economy. AI is intelligence displayed by a computer or machine that mimics the learning or problem-solving processes that humans undertake. AI first came to prominence with the chess playing computer—Deep Blue—that famously defeated then world champion Garry Kasparov in 1996. Since then, AI has developed and become more sophisticated and is being applied in a range of contexts from processing and understanding complex datasets, to military simulations and games, to autonomous vehicles. Most importantly, with the increasing use of machine learning algorithms and rule-based digital processes and systems, AI is developing more natural intelligence skills such as seeing, learning, reasoning, or formulating and executing plans (Nau 2009).

Underpinning AI are algorithms that apply a set of rules and parameters under which the AI machine operates. This is why AI, at the moment, can only mimic learning and problem-solving, as algorithms need to be predefined and are constrained in the number of rules and parameters they

contain. That said, they are becoming more sophisticated and have enabled AI to be more widespread in application. One area where AI has had an impact on the international political economy is in stock trading. Here, AI has fundamentally reshaped how markets function, as algorithms have made it easier and quicker to understand demand and supply at an individualised level. Promoting the use of AI in market trading is believed to make behaviour more predictable, reducing human error or irrational consequences, resulting in more efficient functioning of market activities.

The application of AI to many functions within the international political economy seems endless, but there is a current debate on whether AI threatens to replace humans in the workplace or will result in a new set of job opportunities to emerge. The response is likely that AI will disrupt job structures at multiple levels, including 'white collar' jobs performing professional and administrative tasks, but that it will also create opportunities for the workforce to upgrade its overall skillset. Klaus Schwab, the founder of the World Economic Forum, believes that low-skilled/low-paying jobs are particularly at threat from automation, which combines AI and robotics, and will increasingly require a reconfiguration of skills between machines and humans. To adapt to this will require a shift in how education is structured, particularly at the tertiary level. Arvanitakis and Hornsby (2016) argue that the potential disruption posed by AI, and other similar technologies, requires universities in particular to shift their focus from primarily delivering disciplinary content to fostering skills that enable graduates to adapt to changing socio-economic forces.

The Automatic Enterprise

An emerging application of AI is in the development of the 'automatic enterprise', through the implementation of autonomous machines and systems in production and distribution processes. One example of this transformation has taken place in retail and warehouse management, where human and machines, such as robotic shelves, work in collaboration to ensure that storage space is effectively utilised and that packages are efficiently distributed across the warehouse in relation to their delivery time and location (Knight 2015). However, as enterprises become more automated, the impact on employment and new skills development becomes more acute. This is why multinational enterprises operating in both developed and developing countries are under more pressure to invest in new models of social corporate responsibility, which include training their workforce to manage and work alongside robots and

artificial decision-making processes, as well as new social contract models that support the role that states have traditionally played in educating their population (UNIDO 2016; OECD 2017a).

The implications of AI on the labour market also pose particular problems for international security, stability, and development particularly in regions and states that are not industrialised or maintain a significant degree of inequality. If production processes become fully automated and run by intelligent machines, the space for economic development to take place through using low-skilled workforces in the production of goods will become displaced, further marginalising the poor. Without considerable opportunities for economic development, social unrest and conflict can result, causing political instability and insecurity at the global level. Given the relationship between poverty, political stability, and violent conflict, it would not be a far stretch to imagine a world that is more unsafe if the opportunities of AI are not considered against processes and needs of developing countries or regions.

Blockchain

Blockchain is another example of digital innovation that gives real meaning to the potential impact of the Fourth Industrial Revolution. Blockchain is a distributed, peer-to-peer system that records and structures digital transactions in blocks of data that can be shared across a network of computers without the need for a central authority or trusted third party to control it.

> In essence, it is a shared, trusted, public ledger that everyone can inspect, but which no single user controls. The participants in a blockchain system collectively keep the ledger up to date: it can be amended only according to strict rules and by general agreement. (*The Economist* 2015)

Thus, one of the benefits of blockchain is that it allows for peer-to-peer transactions to emerge without the presence of a central clearing house. Originally developed to track and account for cryptocurrencies (see below), the application of blockchain maintains potential to revolutionise how contracts, records, and other forms of transactional information is kept. And, because blockchains incorporate digital encryption technologies for data transmission, algorithms, and time-stamping technologies to validate transactions, they provide a degree of security and transparency to record-keeping, improving trust in economic transactions (Campbell-Verduyn 2017, 1).

Blockchain technology is already having a significant effect on the international political economy. Fundamentally, it challenges centralisation, understood as the hierarchical distribution of authority within and between states, that has driven and supported the national and international flow of capital. For instance, blockchain can be used to transfer property ownership without the need for a central institution, such as a bank or a land registry, to clear, monitor, and record the process. The ability to record property rights on a public blockchain is perceived as having great potential for institutional capacity building in developing countries, where public record-keeping can be weak. Given the transparent nature of the blockchain, it could reduce property title fraud (Scott et al. 2017, 425). By distributing and noting transactions in each of the nodes of this horizontally maintained ledger, the potential for fraudulent behaviour by one individual or organisation becomes less possible, as information is shared and stored across the system. However, the application of blockchain in land registry can also highlight some of the disruptive effects of this innovation. On the one hand, blockchain has the potential to strengthen state capacity through decentralised and transparent public record-keeping, which reduces the financial burden to support the administrative apparatus of the state. On the other hand, blockchain creates competition in activities that have traditionally been within the remit of the sovereign state, thus challenging the authority of a key actor in international relations.

Because transactions using public blockchain are, ultimately, legal agreements that can be executed without intermediaries who set, monitor, or ensure compliance with the terms of the contract, blockchain can be applied to a number of transactions, from issuing insurance policies to financial trading. These examples can also showcase the disruptive effects of blockchain on the international political economy. On the one hand, blockchain enables a more efficient, transparent, and cost-effective exchange of capital while also reducing information asymmetries between individuals, regulators, and financial institutions in the international monetary and financial system. On the other hand, because blockchain is an anonymity-based technology, it can be used to circumvent the current rules and practices that define the international financial system, contributing to speculative high frequency trading and the creation of dark pools (Chiu 2016). Thus, in international financial markets, blockchain can both enable and obstruct transparent trading.

Lastly, blockchain can contribute to the creation of transnational social impact, enhancing the corporate social responsibility of private enterprises, and it has already been identified as having potential to improve the governance of complex supply chains through ethical sourcing (Al-Saqaf and Seidler 2017). For instance, in the context of mining and conflict diamonds,

a technology start-up is using blockchain to verify, protect, and warrant the ethical provenance of diamonds, as part of international efforts to reduce the number of conflict diamonds in circulation.[1] In this sense, blockchain is being mobilised towards the ends of ethical international trade agreements and regimes such as the Kimberley Process Certification Scheme (KPCS), promoting ethical corporate behaviour and addressing the transnational trafficking of natural commodities (Hale and Held 2011, Chap. 38). However, blockchain systems raise concerns about the anonymity of the code and verifying protocols that ultimately ensure its reliability and transparency. Like other digital technologies, blockchain relies on software that is vulnerable to cybersecurity breaches and requires constant patching and strong vulnerability management policies. Equally, while blockchain code is largely open source and transparent, its use might not always be, posing real legal and ethical concerns about the traceability and trustworthiness of online transactions, potentially requiring new legal institutions to define and implement liability in international transactions (Reed et al. 2017).

Cryptocurrencies

An emerging outcome of the prevalence of blockchain is the development of cryptocurrencies, such as Bitcoin or Etherium. Cryptocurrency is a digital currency that is not connected or supported by a state. It consists of monetary tokens whose circulation is being recorded in a distributed public database (ledger) that keeps track of transactions in a transparent manner. Scott et al. (2017, 423) note that cryptocurrencies 'suggest a commitment to principles like decentralization, social solidarity, and disintermediation', standing in contrast 'to the centralized and asymmetric power relations of the traditional financial sector'. Because the issuing, control, and management of money and credit has been a recognised source of authority and political struggle in international relations (Ravenhill 2016, Chap. 8), cryptocurrencies challenge the fundamental distribution of power in the international political economy.

At first, cryptocurrencies such as Bitcoin were not perceived as a threat to the sources of authority and the structure of the international monetary system. Instead, they were regarded as exchange tokens in confined transnational 'cryptocommunities'. However, due to a number of critical events, such as

[1] Everledger uses blockchain, smart contracts, and machine vision to authenticate and protect the provenance of high-value assets.

the collapse of established financial institutions in the aftermaths of the financial crisis, cryptocurrencies became accepted forms of payment for sharing economy services provided through online platforms such as Airbnb and Uber (Campbell-Verduyn 2017). In addition, as online retailers and investment banks integrated blockchain into their operations, they also began developing their own cryptocurrencies and started trading them in digital marketplaces. This evolution has led scholars of international affairs to conclude that '[B]itcoin and blockchain technologies became increasingly integrated into the very global economic system that their earliest developers had explicitly sought to provide alternatives to' (Campbell-Verduyn 2017, 2).

Confirming the disruptive effects of these digital innovations on the international monetary system, the current Managing Director of the International Monetary Fund (IMF), Christine Lagarde, noted that cryptocurrencies could reshape currency markets and international investment in reserve currencies (Lagarde 2017):

> For instance, think of countries with weak institutions and unstable national currencies. Instead of adopting the currency of another country – such as the dollar – some of these economies might see a growing use of virtual currencies. Call it dollarization 2.0. […] For instance, they could be issued one-for-one for dollars, or a stable basket of currencies. Issuance could be fully transparent, governed by a credible, pre-defined rule, an algorithm that can be monitored…or even a 'smart rule' that might reflect changing macroeconomic circumstances.

In part, the disruptive effects of this innovation on the global economy are already seen. Because, at present, there is no central bank or government that backs the value of cryptocurrencies, those who invest in it undertake significant risk, as it relies solely on market forces to interpret and determine its value. This poses a number of threats, some of which are already visible (Scott et al. 2017): the high volatility of cryptocurrencies (fluctuating from 10 to over 800 tokens vis-à-vis average currency fluctuations between 13 and 166 dollars over the same period); encouraging hoarding behaviour (which is more problematic if market participants borrow state-backed currencies to invest in cryptocurrencies); or hacking into private wallets or digital currency exchanges (as it has recently happened to the Japanese digital currency exchange) (BBC News 2018).

Given that cryptocurrencies are essentially 'empty assets', their disruptive effects can be quite remarkable. By 'empty assets' we mean that there is no value beyond what people are willing to pay for them. Bacon et al. (2017) call them a:

> technological construct, which has value only to the extent that individuals are prepared to pay currently registered holders of BitCoins for transfer of the entitlement. If for some reason the system ceased to operate, all the assets would just disappear and holders would have no legal claim upon any person. If the encryption technology used had a flaw, so that unlimited BitCoins could be created, the value of each BitCoin would plummet to zero. Within the walled garden of the system, the law has no role to play.

In this context, it should come as no surprise that states and international organisations that have contributed to the current design and management of the international monetary and finance system are increasingly preoccupied with the status of cryptocurrencies in the global economy. At present, there are at least three pathways that can be identified, each with potential to disrupt the current organisation, principles, and practices that define the international monetary and finance system. A first pathway would be to maintain the status quo, which could result in the increasing transfer of cryptocurrency risk into the real economy, as more goods and services are being purchased with it. Also, given the anonymity of the distributed ledgers that support cryptocurrencies, illegitimate activities such as money laundering and the creation of dark pools could disrupt the stability and transparency of financial transactions, causing financial bubbles and even a new financial crisis.

A second pathway is for the regulation of cryptocurrencies to emerge, either on a state-by-state basis or through transnational coordination. At the moment, an increasing number of countries such as Russia, China, Israel, the US, and the EU are proposing regulatory frameworks to either govern or ban digital currency markets and platforms (Liao 2017; BBC News 2017; Barkho 2018; ESMA 2017). There is, however, an inherent limitation with this approach, whereby cryptocurrency activity could move to unregulated markets, encouraging a regulatory race-to-the-bottom.

A third pathway is for cryptocurrencies to become a formalised means of exchange through existing international monetary agreements or recognition by established international monetary organisations. Recently, the IMF Managing Director pointed at the IMF's Special Drawing Rights (SDR)—an international reserve asset created by the IMF in the late 1960s to supplement members' reserves—as a potential avenue on which to apply blockchain technology. This could lead to the formalisation of blockchain systems in the current structure of the international monetary system but could also have negative effects on state and non-state actors who restrictively regulate these innovations in their national jurisdictions.

Regardless of the future pathway that blockchain and cryptocurrencies might take, there is clear indication that they challenge the central role that

states have played in the creation of the current international monetary and finance system. The three pathways outlined above also reflect the new trade-offs that these digital innovations bring to the organisation of the international political economy. Whereas, in the past, authority has been contested between states, multinational financial institutions, and international organisations, cryptocurrencies bring individuals and online communities into this process. How this process of decentralisation will influence international or even national monetary regulation remains unclear, but undoubtedly significant.

The Internet of Things

The IoT is the final digital innovation explored here for its disruptive effects on the current organisation of the international political economy. The IoT is an innovation characterised by embedding sensing (data capturing), communication, data processing, and actuation techniques into physical objects and infrastructures, leading to the increased convergence of their physical and digital dimensions. In short, 'the IoT embeds physical objects in information flows and thereby makes them "smarter"' (OECD 2017a, 88).

The IoT is increasingly applied to a number of domains, each with their own domestic and international governance structures, from consumer goods (e.g. toys, home appliances, wearables), to medical devices, to transport systems (e.g. smart traffic systems, connected and autonomous vehicles) and critical infrastructure management (e.g. energy, water and waste management). Thus, the IoT ecosystem is characterised by 'a proliferation of visible and hidden sensors that collect and transmit data; systems that interpret and make use of the aggregate information; and actuators that, on the basis of this information, take action without direct human intervention' (Tanczer et al. 2018).

Because IoT ecosystems integrate several digital technologies and processes, such as AI and blockchain, they create highly complex and connected infrastructures which blur the lines between information and communication technologies, the Internet as the global infrastructure that underpins it, and the production, distribution, and management of goods and services. For instance, IoT is seen as enabling business transformations that change supply chain management through asset tracking and new delivery logistics, having an impact on the global production and distribution of goods and services and, subsequently, on current international trade patterns (Meola 2016).

The benefits and challenges of the IoT are increasingly capturing the attention of governments around the world. On the one hand, IoT is perceived as enabling socio-economic progress, by facilitating more customised, efficient production processes (industrial IoT), enabling forward planning by uncovering structural weaknesses in critical infrastructures, or responding to the challenges of an ageing population through personalised medicine and increased mobility. On the other hand, its public acceptance is challenged by the data protection and cybersecurity vulnerabilities that have been exposed in IoT devices and systems. These concerns are increasingly putting pressures on governments to establish a baseline of data protection and cybersecurity for IoT devices and systems, and to push these minimum specifications at regional and international levels (US FTC 2015; ENISA 2017; US Senate 2017).

IoT in Consumer Goods

The IoT raises critical security and safety concerns due to its increased deployment in national infrastructure management systems in the utility and transport sectors, with potentially catastrophic consequences for the national security of sovereign states. However, an equally challenging area for the international political economy is the exponential rise of 'smart' consumer goods—such as connected TVs, home appliances, security cameras, or home hubs—that are increasingly deployed in private environments, collect more and more data about our patterns of life, and communicate this data among themselves, sometimes without our awareness. In fact, smart consumer goods are currently projected as leading the global adoption of IoT by 2020 (Gartner 2017).

Mass market consumer goods have been relying on global supply chains, with products being manufactured, assembled, and distributed around the world. This globalisation of supply chains has also manifested in low margins for manufacturers, who are increasingly embedding smart technologies into their products, in order to gain competitive advantage. However, most of these smart products have limited inbuilt data protection and cybersecurity features, and are very rarely supported through their lifecycle with vulnerability management policies, because cybersecurity translates into high sunk costs for manufacturers, service providers, and retailers (Brass et al. 2017). These commercial practices translate into a global collective action problem, whereby most entities in the supply chain are disincentivised to implement cybersecurity standards, and insecure consumer products are increasingly disseminated across global markets. The negative consequences

of these practices were felt in 2016, when a large number of insecure IoT consumer products, located all over the world, were compromised and utilised in the most powerful Distributed Denial of Service (DDoS) experienced thus far, bringing down large Domain Name System (DNS) servers in the USA and Europe (Woolf 2016).

The rapid proliferation of IoT brings several challenges to the current structure of the global political economy, which has thus far been organised in discrete governance regimes for international trade in goods, information and communication technologies (ICTs), cybersecurity, data governance, and international safety standards. Because IoT security spills over into each of these domains, it puts increasing pressures on governments and industry to set minimum standards that cut across these regimes (Brass et al. forthcoming). As the IoT becomes more embedded into our daily lives, with consequences for individual, state, and global safety and security, it also requires a reconfiguration of politico-economic interests and institutional practices in the international political economy, which has traditionally managed supply chain processes, ICT interoperability, consumer protection, and information security in discrete regimes.

Conclusions

The innovations present in the Fourth Industrial Revolution raise particular issues for the international political economy, as they cover areas not presently regulated or included in international cooperation efforts. This chapter has shown that, although the technologies and processes presented in the Fourth Industrial Revolution are not new, it is their increased coupling, interdependencies, and pervasiveness that challenge the distribution of authority and institutional structures that underpin our global political economy. Taken together, these digital innovations create new system-of-systems whose dynamics are only now starting to be explored. Thus, as also noted by Nick Bernards in Chap. 20 of this handbook, the consequences of this increasing 'turn to technology' for meeting policy goals are not currently fully understood.

What are the ethical ramifications associated with the growing use of algorithms to perform international financial transactions? How should manufacturers of smart toys address the potential for hackers to access the personal information of children, or to utilise low security mass market products in order to compromise the integrity of the global infrastructure that is the Internet and the vast number of services that rely on it? All of these questions pose significant challenges for the international political economy, for how it

evolves and for how it shapes and reshapes power and resource distribution between state and non-state actors in the future.

In addition, technology and labour have always had a difficult relationship. It is often assumed that technology replaces labour and destroys jobs, when often it displaces jobs in one area and creates new ones in others. That said, the implications of emerging digital innovations appear to be more severe than in previous 'industrial revolutions', requiring businesses and governments to rethink their social responsibility and collaborate closely in order to put forward new social contract models. Thus, consideration will need to be given around what value these new innovations have if they exacerbate inequalities, rather than serving to benefit society.

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39

Gender

Penny Griffin

Introduction

This chapter brings together some of the multiple strands of gender analysis in international political economy (IPE) to focus on an important part of how contemporary IPE is accounting for and engaging with the challenges and opportunities presented by global economic and political structures in contemporary world politics.

As part of more broadly conceived 'critical' efforts in IPE, gender scholarship has not always been well treated by both mainstream and critical IPE (on this topic, see Waylen 2006; Peterson 2005; Griffin 2007; Elias 2011; Hoziç and True 2016; Lacsamana 2016). Despite efforts by feminist scholars to broaden the terminology and interests of critical IPE, it is often the case that critical IPE scholars 'ignore feminist writings' (Waylen 2006: 164) and feminists frequently find themselves having to restate their contributions (Elias 2011: 100–1). Yet, as the pernicious effects of financial crisis and neoliberal restructuring persist, to gendered effect, and the logics of 'austerity' maintain their vice-like grip on economic policy-making, gender scholarship in IPE constitutes a particularly, and perhaps increasingly, important voice interrogating the gendered foundations and consequences of processes that have received insufficient attention in mainstream literature. In particular, gendered IPE scholarship shows just how much 'traditional' IPE issues (such as

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international trade, financial systems and crises, development economics, the relationship between states and institutions, debt management, tax regimes, currency systems, and so on) rest on gendered foundations, and what the effects of this might be.

Gender scholarship in IPE constitutes an extensive body of literature. This chapter begins with a general discussion of gender approaches in and to the global political economy (GPE) as a snapshot, of sorts, of this work. Treating IPE and governance studies as somewhat coterminous, the chapter moves on to consider ongoing and emerging discussions of note in studies of development, governance, and GPE. Focusing on discussions around gender in global governance and the deployment of 'empowerment' rhetoric in development policy-making and governance discourse, the chapter embodies a particular care to understand how issues and changes relate to, arise from, and are given voice by the Global South.

As the editors of this Handbook make clear, capturing the dynamics of change is a core part of contemporary IPE, including studies of global governance. The relationship between public authorities, private forms of governance, and various organisations is complex. Power changes, in nature and effect, across the shifting dynamics and structures of the GPE, historically and in present time. Where things look to be 'business as usual', it is always worth a closer look, to see what really is at the heart of political, economic governance. A number of critical approaches do this. Gender analysis does this, or so this chapter will suggest, especially well.

The Role of Gender in the Global Political Economy

One useful way to think about the contributions of gender scholarship in and to IPE is to think about the ways in which scholars have traced the gendered shape of the global political economy. Gender scholarship presents an embodied picture of the contemporary GPE (i.e., one in human form, and not based on an over-reliance on abstracted theory), and gender scholars try to show where and how leaving gender out creates only a partial understanding of the nature, structures, and processes of the global political economy. This section of the chapter thus explores some of the foundations of gender scholarship on and in the GPE, including how gendered scholarship has addressed the practices of knowledge creation and production in the global political economy.

Gender scholars commit to deciphering both knowledge and practice in the GPE with a 'strong commitment to engaging the voices of the disadvantaged' (Elias 2011: 102). They approach the global political economy in distinctive and diverse ways. Appreciation that the GPE is peopled by, and only functions through, the human bodies that have created it is integral to understanding the socio-economic processes through which the global political economy functions. Gender analysis simply exposes the stories, assumptions, and practices attached to human bodies, making visible the gendered practices that conventional political economy has sought to conceal (Griffin 2010: 96).

Gendered scholarship in and of the GPE is often articulated as explicitly feminist, but it may not always be this. As a body of literature, however, that is theoretical as well as empirical and policy-orientated (Hoskyns and Rai 2007: 298–9), gender scholarship does draw on a history of feminist materialism, poststructuralism, postcolonialism, and queer theory, from various academic disciplines, to target the gendered operations of systems of production, exchange, consumption, and reproduction in the GPE. Feminist analyses of the global political economy are committed to examining socio-economic processes as always and inherently gendered, but they do not share a singular approach, vision, or method. A variety of theoretical and empirical orientations to the study of gender reflect, as Peterson articulates, a truly wide range of positions on *how* to approach and study 'gender' itself (2005: 499). Not all feminists, for example, agree on the relationship between sex and the body, or how to study gender and its effects on formal and informal economies.

Gender scholarship across studies in political economy and governance covers, broadly speaking, three key fields: economics, development studies, and studies in (global) governance (see Griffin 2016). Key contributions to gender GPE scholarship have come from feminist economics, Marxist and material feminisms, empirical, poststructural, queer, and postcolonial approaches. This makes gender scholarship difficult to classify, but also inherently plural and, more often than not, groundbreaking. Critical IPE is concerned explicitly with 'criticizing the exploitative dynamic of capitalist developments' (Peterson 2012: 12): gender scholarship broadens this project to include often neglected understandings of gendered everyday life, social relations, the household, 'informal' work, social reproduction, culture, and identity. Sharing critical IPE's commitment to historicising economic relations and politicising economic discourse, gender scholarship is also, however, distinct in centralising gender in economic processes and interrogating the structural vulnerability of the human body. Gender scholars have dedicated themselves to interrogating the gendered foundations and consequences of

processes that have received insufficient attention in mainstream literature (such as the role of and insufficient accounting for reproductive labour, sex work and trafficking, domestic labour, remittance economies, the casualisation of working practices, and the impacts of conflict and the parameters of post-conflict 'reconstruction'). While international relations remains somewhat obsessed with 'security' and military affairs, and conventional IPE often adopts a rationalist method to assess 'formal' relationships (e.g., between public and private sectors), gender scholars have prioritised different, perhaps less obvious, elements of world politics (such as everyday practices of social care, families, cultural expectations, and non-elite political organising).

'Empirical' and 'Analytical' Gender in the GPE

In terms of how to approach and understand gender in the GPE, Peterson (2005: 499) makes a useful distinction between two broad gendered approaches to the global political economy: the 'empirical gender' approach and the 'analytical gender' approach.

The 'empirical gender' approach foregrounds how men and women are differently affected by, and differently affect, political economy ('gender' understood empirically). Such an approach might choose to focus on socio-economic relations to emphasise the role of women (see, e.g., Hennessy and Ingraham 1997; Steans 1999; Wichterich 2000). This means that some core assumptions must be made about women as a particular group: how they labour, how they care, and how they reproduce. These need not be essentialist assumptions about what women are, but there will be a degree of fixity to analysis that is interested in 'testing' hypotheses about women as a relatively unified social group. Such approaches are designed to expose the extent of masculinist bias in existing studies by 'counting' women, revealing the omission of women to counter the 'universal' claims of approaches that are far from universal.

The 'analytical gender' approach, on the other hand, understands gender as a 'meaning system' within which masculinity and femininity produce and are produced by political economy. Such an approach to gender focuses on analysing how the categories of 'masculine' and 'feminine' signify power differently, for example, through the privileging of certain attributes, ideas, or roles (public sector over private, formal economy over informal, autonomy over dependence), and the devaluing of others (e.g., informal, 'feminised' work). As such, the 'analytical gender' approach forces the researcher to rethink

foundational, and masculinised, categories (Peterson 2003: 36) and, in so doing, to assess the hierarchical implications of such bias in and across the GPE. This is evidenced in gendered discourses of, for example, development, financial practice, economic governance, and so on.

Neither an 'empirical' nor an 'analytical' approach is more valuable; these approaches simply offer different intellectual starting points for answering their own specific types of question. Sometimes gender scholars employ both approaches at different times in their careers (good examples here are Benería 2001, 2007; Bergeron 2004, 2011). It is important not to view, or describe, gender scholarship as singular, or unified: rather, gender scholars have different (sometimes complementary, sometimes not) ways of approaching gender in the GPE.

Ongoing and Emerging Issues and Debates (1): Gender in/and Global Governance

To study 'global governance' is, most simply, to seek to understand and describe the structures, mechanisms, and processes through which collective decisions are made in world politics. The popularity and increased use, at least since the mid- to the late 1990s, of the term 'governance' itself has stemmed in large part from the concerns of international organisations to contain the corruption of Third World (and sometimes Northern) governments. As such, 'global governance' is a term intrinsically connected to the operations, practices, and policy-making initiatives of international 'development'. Although, however, gender scholarship has shown just how central gender is to questions of 'development' (such as debt management strategies, the growth of export processing zones, unequal divisions of labour, and the effects of and forms of resistance to 'globalisation'), official engagements with and conventional accounts of 'governance' have 'largely ignored both gender and power', perpetuating a general failure to interrogate 'the gendered, complex and fluid nature of governance' (Parpart 2007: 207).

To use the term 'governance' as a 'thing' defined by the Global North, to be done better by the Global South, is, of course, resoundingly problematic, not least for the patronising and imperialist undertones of failure it reserves for less 'developed' communities and peoples. Indeed, a key feature of gender scholarship on governance, particularly in relation to studies of development and in comparison with conventional IR and IPE, has been both its heterogeneity and attention to race as a core, and intersecting, component of social

and economic life. While Northern, white men tend to dominate the knowledge produced by and for IR and IPE, this is much less the case across governance and development literatures.

Of particular concern across governance practices, and debates, at least since the late 1990s, has been the concept of making globalisation 'work' for all, particularly the poor, with special attention to the social and economic costs and benefits of global integration (see Modi (Chap. 25), this volume). Herein, and as discussed further in the following section, poor women have increasingly been targeted as 'responsible' agents of economic development. Social concerns that clearly impact on market efficiency have, therefore, increasingly fallen under the scrutiny of international organisations and development agencies, with social operations much broader in scope than, say, 20 years ago. Many international organisations do also, of course, operate 'gender policies', which are designed to streamline gender analysis into the lending, analytical, and advisory 'products' that they offer (see, e.g., ADB 2003, 2013; World Bank 2002, 2015). Although in terms of literatures on global governance, gender, sex, and sexuality have been widely acknowledged to play a not inconsiderable role in the practices, processes, and structures of global governance, governance organisations and agents rarely (if ever) recognise themselves and their institutionalised discourses as gendered, offering only neutral accounts and descriptions of the processes and effects of governance itself. As such, too often little attention is paid to the ways 'in which both the processes and the institutions of governance are gendered', or how it is the case that institutional, discursive, and structural biases favouring men continue to dominate governance (Rai and Waylen 2008: 2).

Gender scholarship on global governance (e.g., Meyer and Prügl 1999; Marchand and Runyan 2011; Young et al. 2011; Figart and Warnecke 2013; Caglar et al. 2013) has coincided with the rapid uptake of 'governance' rhetoric in IR more broadly since the late 1980s (see Sinclair (Chap. 5), this volume), and has focused on a variety of areas and themes. Drawing from various intersecting methods and approaches, including empirical, historical, critical, poststructural, queer, and postcolonial perspectives, gender scholarship seeks 'to understand how global governance is gendered', but not only this, investigating simultaneously 'the ways in which global governance can be transformed' (Rai and Waylen 2008: 1). The earliest forms of gender work on governance saw feminists map the ways in which women's activism has engaged, and changed, institutions of governance, affecting various policy outcomes (ibid.: 4). Research looked at women within and outside governance organisations, and examined struggles around gender-based policy,

especially but not only gender mainstreaming, within organisations. More recently, scholarship has sought to combine gendered analyses of governance and globalisation, as both the result of processes that are constructed and regulated, rather than immutable and irresistible, integrating 'the study of structures and actors to a much greater degree than has happened to date' (ibid.: 5).

Through consideration of a range of governance actors, and also of the role of political enquiry into the GPE in and of itself, gender scholars have examined sources of contemporary global governance to show how gender analysis enriches the dynamism of studies of and practices in the GPE. As Rai observes (2004), both 'global' and 'governance' are contested but important terms, within which capitalist economy is always gendered. Rai defines governance as 'a gendered system of rules and mechanisms that translate these rules for "public life" bounded by and constitutive of discursive, political and economic power' and including 'multiple actors as well as multiple sites' (2004: 596). Gender scholars have addressed the form, effects, and shifting dynamics of governance in various ways, and have been particularly attentive to state and non-state mobilisations of power, 'the changing relationship between states, markets, and civil society and nongovernmental organisations' (Bedford and Rai 2010: 5) and changing modes of governance across the international space. They have considered how certain technologies of governance (including strategies of 'gender mainstreaming' and 'diversity management') have reproduced gendered relations of power, and have reflected on the role that feminists can play in challenging and resisting 'disciplinary neoliberalism'.

Gender scholars have considered how various governance strategies, organisations, practices, and outcomes are inherently different, and have vastly different outcomes, depending on whom (on which types of body) they play out. Gender critiques of governance have, for example, highlighted how women's involvement across sectors has often been rendered invisible through assumptions about women and men 'do'. They have analysed how globalisation discourses condition and limit knowledge in the global political economy through problematic, racist binaries. They have revealed the (troubled) relationship between feminism and institutional context, deconstructing how feminist knowledge has been adapted to serve the purposes of private actors, corporations, and instruments of governance (see, inter alia, Prügl 2011, 2015; Roberts and Soederberg 2012; Elias 2013; Calkin 2015a; Griffin 2015).

Ongoing and Emerging Issues and Debates (2): The Rise (and Fatigue) of 'Empowerment' Discourse In and Across Development Strategy

Emerging in response to the continued, and wilful, blindness of development theory and practice to the category of 'woman', and following the publication of Ester Boserup's highly influential *Woman's Role in Economic Development* (1970), gendered analyses of the global 'development' regime have been extensive. The evolution of gendered accounts of and engagements with development is particularly well established and has leant IPE a, now quite vast, body of literature with which to assess the global political economy. Debates on gender and development are ongoing and dynamic, posing questions about the nature and impacts of practices of governance, policy regimes, levels of authority, and the prospects for future change.

The legitimacy and longevity of governance structures and practices depend on socialising human bodies (female, male, or otherwise) into global systems of neoliberal economic productivity. Various agents of 'development' have sought to engineer capitalist 'market society' while often, particularly since the 1990s, claiming to 'empower' poor people. Examining the constitution, limits, and effects of human 'development', gender scholars have particularly focused on how, where, and to what effects the discourses reproduced by governance actors embody logics of imperialism and inequality, but importantly also, since no governance discourse is ever set in stone nor immune to transformation, the possibility of resistance, and future change (Griffin 2010: 87).

The white, liberal, masculinised governance of development has evolved, from the 'disembedded' liberalism of the Washington Consensus, to governance discourses of 'partnership', 'knowledge sharing', 'inclusion', and 'social development' embodied in a 'Post-Washington Consensus' effort to acknowledge (but also capitalise on) 'the social' in economic relations (see also Eagleton-Pierce (Chap. 8), this volume). This has involved broad policy incursions into the social constitution of economic inequalities, including 'making policies and programs in developing and transitioning economies more equitable and sustainable' (World Bank Social Development Sector, cited in Griffin 2009: 80) and promoting the 'greater empowerment of poor and marginalized groups' (ADB 2012: 3). Feminist and gender scholars of governance have been particularly attentive, here, to the reliance (in institutional rhetoric) on empowerment as a discursive trope, which emphasises individual emancipation over collective achievement. As neoliberal agents of development have increasingly advocated a market approach to women's 'empowerment', they

have argued that this provides women with new skills and opportunities, rewrites household power dynamics, and improves gender equality *generally*, across societies (see, e.g., ADB 2013; Johansson de Silva et al. 2014).

A result of this shifting neoliberal agenda is that neoliberal development's advocates have imposed, in effect, significant expectations on women in developing countries. Gender scholars have widely noted the dangers of essentialism in development strategy and the subject of women's 'empowerment' has thus been a controversial point among and across developmental spaces, discussions, and policy practices, and for some years now. Frequently conflating 'gender equity' with 'women's empowerment', and to potentially adverse effect, gender analyses have been especially critical of ways in which key agents of development have tended to homogenise women in developing countries as a unified 'social group' ('poor women') while relying on women's supposedly 'essential' qualities to engineer market growth. Gender scholars have pointed out the limitations in assumptions of women's '(apparently universal) low-privilege social status', such that women in developing countries automatically become deserving of the 'opportunities' required 'to give them greater power and self-confidence to assert their rights' (Carroll 2001: 104), simply because they are female. Prescient critiques have targeted the problems implicit in representing women and girls in development policy-making as intrinsically altruistic, nurturing, and endlessly resilient, waiting for their 'natural entrepreneurial power' to be 'unleashed through business training' (Calkin 2017: 87). Third World women are expected to transform from primitive beasts of burden to 'enlightened' market agents with apparently minimal adverse impact on either themselves or their communities. The agency of these women remains relatively tiny across neoliberal strategy, but the degree to which they are classified and stereotyped by development 'experts' is significant. Invariably, Third World women themselves are the ones to point out the imperialism and hypocrisy (see, e.g., Mohanty 1984; Dogra 2011; Wilson 2011), and there has been a wide array of razor-sharp, gendered, postcolonial engagements with the development 'machine', its constitution, and effects.

Popular development strategies intent on releasing women's hitherto unidentified entrepreneurialism have so far included conditional cash transfer programmes, microfinance schemes, and 'investing in girls', as promoted, for example, by the Nike Foundation's 'Girl Effect' (Chant 2016a: 1). As Weber notes, microcredit/microfinance has 'come to occupy the status of a hegemonic discourse' across development strategy; it is a much-relied upon intervention for poverty reduction, generally, and the 'empowerment of women', in particular (2002: 539–540). This is especially the case since the 1990s and the so-called 'successes' of the Grameen Bank. The reliance in neoliberal

development strategy on microcredit, or microfinance, as a means of 'empowering' poor women has been around for some time, making a notable entry into the popularity canon in the 1980s, to be quickly taken up by key international organisations as the World Bank and the United Nations. It has since become a dominating tool of neoliberal strategy and a 'post-millennium mantra of development' (Zulfiqar 2017: 160. See also Rankin 2001; Kabeer 2005; Calkin 2015b; Chant 2016a; Weber 2002, 2006, 2016). In 2005, the UN even adopted a resolution to declare 2005 the year of microcredit (Weber 2002: 540). While, locally, 'microcredit is purported to stimulate a transformation of the "vicious circle" of poverty into a "virtuous cycle" of economic advancement', globally, the centralisation of microfinancial activity in development strategy facilitates the intimate reproduction in household practices and everyday life of both 'financial sector liberalisation and the global trade in financial services' (Weber 2002: 537–540).

Although the reliance across neoliberal development strategy on private financial schemes, such as microfinance, is not novel, the 'girl' agenda (the idea that girls represent a viable investment stream for development and corporate actors) *is* relatively new to development strategy. Most visibly, and perhaps famously, the incorporation of a concern for girls as well as women in development has been pioneered by the Nike Foundation, with its 2008 World Economic Forum launch of the Foundation's 'Girl Effect' campaign. This is a collaborative development agenda, run in partnership with various organisations and agencies, including the World Bank, various NGOs in developing countries, and national-level agencies, such as the UK's Department for International Development (DfID). As numerous feminist scholars have commented, it is also a key means through which a corporate-led development paradigm has been carefully, and quietly, implanted in global development practice (Roberts 2014: 13; Calkin 2016: 161; Chant 2016a: 10–11, c).

'Smarter' Economics

Since the World Bank's release of its Gender Action Plan, 'Gender Equality as Smart Economics' (World Bank 2006), the so-called 'Smart Economics' agenda has become (probably) the key global development strategy for promoting gender equality and female empowerment. As Chant argues, if 'Smart Economics', as promoted largely by the World Bank and its corporate partners, 'had already captured the imagination and allegiance of a host of multilateral and bilateral development institutions, as well as non-governmental organizations (NGOs)', its successor, 'Smarter Economics' (see Elias 2013;

Chant 2016c), has arguably been even more persuasive, calling on girls *and* women 'to improve their circumstances and advance gender equality through market mechanisms' (Chant 2016c: 315).

Gender scholars have applied themselves to the powerful rhetoric of smart/smarter economics, and the vision of women's empowerment embodied in these pervasive, and powerful, developmental discourses. As agents of neoliberal development have steadily advocated the 'value neutral' unleashing of market forces as socially advantageous and emancipatory to poor people, especially women, they have ignored that markets are partial, elite-affirming, and subject to failure.

Gender scholars have noted how the official women/girls' empowerment agenda has subtly shifted the parameters around the meaning of 'empowerment', pushing the term as close to synonymous for market growth as it has ever been, without any evidence of the positive impact of commercialised, market discourses on women's empowerment and gender equality. While the logic of microcredit/microfinance has thoroughly saturated development agendas and practices, and is, in many respects, simply the 'common sense' of various development organisations, actors, and agencies today, the apparently positive impacts of microcredit/microfinance remain conjectural rather than actually substantiated (Zulfiqar 2017: 160. See also Lingam 2008). Either as empowering to women or as enhancing women's access to finance, a significant absence of empirical evidence links microcredit/microfinance with women's empowerment: in fact, Zulfiqar argues, 'commercialized microfinance has actually led to a rise in gender inequalities in access to finance' (Zulfiqar 2017: 160).

Thus, it is more likely the case, now, that a development organisation will claim that microfinance enhances *gender equity* in *access to* finance. As Zulfiqar discusses, this argument is a subtle reworking of the earlier, and 'more ambitious', contention 'that microfinance has an empowering impact on women' (2017: 160). The United Nations is an interesting example here. The UN today timetables an annual 'Women's Empowerment Principles Forum', and operates various guides to 'empowerment' across its working departments. 'Empowerment', for the UN, has, however, shifted: although, generally speaking, the UN defines empowerment fairly loosely, and variously, across the organisation's various departments and policy-making practices, the shift is marked. An early 'five components' approach, found in the International Conference on Population and Development Guidelines (1994), equates women's empowerment to 'women's sense of self-worth', their right 'to have and to determine choices', 'to have access to opportunities and resources', 'to have the power to control their own lives, both within and outside the home',

and 'their ability to influence the direction of social change to create a more just social and economic order, nationally and internationally' (UN n.d.). The UN today, however, evinces a focus much more clearly centred on economic growth. 'Empowerment' is now defined in terms of women and girls' 'access to education, health care, decent work, and representation in political and economic decision-making processes', which, the UN argues, 'will fuel sustainable economies and benefit societies and humanity at large' (2018).

Gender scholars of various perspectives have been especially clear on how the marketing of empowerment success as measurable according to women's formal sector contributions represents an instrumentalisation of 'gender' in development that is troubling. Not only does this instrumentalisation of gender perpetuate the assumption that 'gender' is a category applicable only to women/girls and studies of women/girls, it also reinforces the assumption that 'formal economy' contributions are the only contributions worth measuring, ignoring the 'informal' labour that women contribute to sustain the 'formal' economy (a theoretical manoeuvre that further reinforces the global depletion of social capital). Gender scholars of development and governance have emphasised how international organisations, as they slip between 'gender inequalities' and 'sex-disaggregated statistics', have barely considered 'informal economy' productivity, prioritising gender in the 'economic sectors', not the 'social sectors', as key to increasing women's productive output (see Griffin 2009). Reproducing the assumption that 'women's ability to compete' must be increased, governance discourses eradicate all other (non-competitive and/or non-entrepreneurial) behavioural possibilities for women, a strategy that may only prove more socially divisive to those societies targeted and that automatically 'others' targeted populations in a GPE predicated on white superiority.

Women's empowerment is so central to Post-Washington Consensus approaches to development that it no longer warrants special mention, and microfinance has been increasingly incorporated strategically, and problematically, to transfer responsibility for poverty alleviation to poor families themselves while embedding debt-dependent relations at a community level (Weber 2016: 433). This represents a clever, but ultimately disappointing, co-optation of feminist critiques of 'top-down state planning', intended 'to combat women's poverty and misrecognition of their labour' but that have instead 'been taken up to endorse labour market flexibilisation' (Calkin 2017: 74). Such a co-optation ultimately also renders microfinance/microcredit schemes cheaper to implement and much less publicly assessable. Crucially, through recourse to strategies such as microfinance that are outsourced to private organisations and targeted specifically at poor women, 'gender

inequality' is reproduced, strategically, as something from which to draw profit; 'a site of accumulation' and 'mechanism for legitimising the increased power accorded to the private sector in development governance' (ibid.: 69), rather than a long-term and collective 'good' for women and their communities.

Use of 'gender equity' as equivalent to women's empowerment (measured according to their level of market access to 'assets' and 'opportunities) also, of course, excludes all those not classified as women. Governance efforts and development policy-making that have particularly targeted poor women have tended to support organisational interventions that focus *only* on women/girls, not more generally. As such, 'gender equity' has become, to all intents and purposes, the primary means through which women might realise their 'individual potential' (i.e., their economic potential), but not as part of a strategy that men, or indeed anyone identifying beyond conventional binaries, might meaningfully contribute to or locate themselves within.

Concluding Thoughts

The language of 'gender equality' and 'women's empowerment' was mobilised 'by feminists in the 1980s and 1990s as a way of getting women's rights onto the international development agenda' (Cornwall and Rivas 2015: 396). Given that this language has become a pervasive presence across the development landscape, in many ways, these feminists' efforts can be declared successful. Despite, however, the successes feminists have experienced in getting gender equality and empowerment onto the agenda, 'the translation of essentialised and unproblematised assumptions', anchored in the 'traditional "feminisation of poverty"' narrative and translating into '"feminisation" of anti-poverty initiatives', would not, as Chant argues, seem to constitute 'an unqualified success' (2016a: 16).

Sadly, then, this chapter concludes terms such as 'empowerment', as used across governance practices at least, have lost a good deal of their 'conceptual and political bite', compromising their function as 'the primary frame through which to demand rights and justice' (Cornwall and Rivas 2015: 396). The 'gender agenda', as it currently stands across development organisations is 'unlikely to deliver the kind of transformation that would create the more just, more equal and happier world that we would all like to see' (ibid.: 410). Little across development strategy and governance today challenges the presentation of women in the Global South as individualised, targeted recipients of paternalistic, neoliberal 'intervention', entirely encumbered by traditional

gender relations and in need of liberation. Microfinance/microcredit is now so central to development strategy that it is an explicit component of the 2015 Sustainable Development Goals (SDGs) agenda, yet its contributions to women's *disempowerment* within the context of the globally widespread neoliberal development project are not yet understood (Weber 2016: 436).

This is not to suggest that creative, significant solutions are not imaginable or practicable. This chapter has argued that gender is an essential part of any inquiry into global politics: it has focused on examples of gender and development, global governance, and neoliberal economic discourse in practice and policy-making to show how gender analyses of and in the GPE are creating an enlarged and more complex sense of human identity formation, expanding how 'gender' itself is conceived of in the global political economy. An increasing commitment to gender as pivotal in *all* socio-economic processes has made gender indispensible to studies of the GPE, enabling vital consideration of people's lived experiences of economic processes through non-abstract and practically applicable research. Gender scholarship has shown, exhaustively, that 'gender' is everywhere and that no 'economic' value is socially untied, gender 'neutral', or beyond critique. Gender advocacy pushes research, policy, and practice always to try to do a bit more, to think a bit more imaginatively, and it is plausible that governance practices can follow this lead.

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40

Sport and Contemporary International Political Economy

David Black and Maya Hibbeln

Sport, once widely portrayed as 'autonomous' from politics and political economy, has, since the onset of the Cold War and the subsequent rise of neoliberalism, become a focus of intense interest and engagement by governments and corporations alike.[1] To be sure, competitive sport has long been infused by both politics and commercialism. Nevertheless, the rapid *intensification* and systematic *co-mingling* of these trends is a relatively recent historical phenomenon. In short, sport has become both a major arena for political-economic activity and a vehicle through which political-economic interests and objectives are aggressively pursued.

In this brief examination, we consider some of the principal explanations for this intensified role and relationship between sport and International Political Economy (IPE). We then focus on the exceptional affinity between sport and neoliberal globalization. We highlight the capacity of sport to advance the branding of companies, localities, and nations. Finally, we consider some of the ways in which Sport Mega-Events (SMEs) have emerged as a particularly desirable, yet contested, means for the pursuit of political-economic interests and objectives.

[1] On the resilient 'myth of autonomy', see Lincoln Allison (1993).

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The Nexus of Sport, Wealth, Identity, and Power

Plainly, sport has become a locus of dramatically escalating wealth generation. To cite only a handful of spectacular examples, according to *Forbes* magazine, the world's highest paid athlete in 2017, footballer Cristiano Ronaldo, earned US$ 93 million; the world's most valuable sport franchise, the Dallas Cowboys of the National Football League (NFL), was worth US$ 4.2 billion; and the most lucrative television contract, again with the NFL, was worth US$ 4.5 billion per year for nine years. Strikingly, the vast majority of the world's highest paid athletes are men—the top female earner, tennis star Serena Williams, only landed in 51st place—while the most lucrative franchises and television contracts are almost exclusively concentrated in North America and Europe. The most lucrative television contract in the Global South, and the only one in the top ten, is Indian Cricket's ten-year contract valued at US$ 160 million per year.

Thus, sport not only mobilizes extraordinary wealth, but does so in highly concentrated ways, dramatically reinforcing hierarchies of, for example, gender, development, race, and (dis)ability.[2] The question is, why and how did this occur? How did sport shift from a popular cultural practice in which amateurism was a cherished, though contested value and professional sports leagues had relatively limited reach and wealth, to today's multi-billion dollar, multi-dimensional industry in which rampant commercialism is almost universally celebrated?

First, and most broadly, sport was swept up in the neoliberal turn and the concomitant celebration of capitalist market competition that took hold in the Anglo-American world under UK Prime Minister Thatcher and US President Reagan in the late 1970s and early 1980s (see Eagleton-Pierce (Chap. 8), this volume). This turn subsequently spread through processes of ideological diffusion and (in the Global South) structural adjustment conditionalities (e.g., Nauright 2014). It was further reinforced by the collapse of state socialism in the early 1990s.[3] Sport not only *followed* the trend towards commodification and commercialization, however; hyper-competitive, high-performance sport can be seen as a uniquely apt *metaphor for* the processes of competitive adaptation that governments and citizens were enjoined to adopt (Black 2008, 471).

[2] See Muggah (Chap. 29), this volume, for a discussion of the links between school activities (including sports), social development, and crime.

[3] One of the ironies of contemporary high-performance sport is that many of the regimented, top-down, high-performance sport practices pioneered with such success in East Bloc sport systems have been emulated by their 'advanced capitalist' counterparts in the post-Cold War era, frequently underwritten by high levels of corporate sponsorship.

In these conditions, sport became an increasing focus of attention among both state and corporate interests.[4]

Second, and closely related, was the unique affinity between high-performance sport and the increasingly pervasive and lucrative mass media—first television, and later proliferating internet-based social media. The combination of global standardization and dramatic uncertainty that is the hallmark of modern sport—common rules, predictable scheduling, and familiar routines by both players and fans, on the one hand, and the delicious uncertainty of the outcome of each contest, on the other—created an extraordinary, and lucrative, affinity between commodified professional sport and the mass media (Grix 2016, 61–63 and 70–82; Jhally 1984). These possibilities have only been accentuated by the proliferation of social media platforms. Major sport championships and mega-events are routinely the most watched events in the world, with viewership estimated at over 1 billion for the 2014 FIFA World Cup final, 1 billion for the opening ceremonies of the 2008 Beijing Olympics (see Baker 2016), and over 111 million for the 2017 NFL Super Bowl, confined almost exclusively to the American viewing market (see Pallotta 2017). These unparalleled opportunities for exposure result in exceptional, and exceptionally expensive, advertising and sponsorship opportunities—a theme to which we will return. The mediatization of sport, moreover, has underpinned the phenomenon of globally networked supporters' clubs, imaginatively linking diehard followers of, say, Arsenal in London with counterparts in Kampala, Rio, or Bangalore.

Third, notwithstanding the relentless march of commercialism, sport has retained a remarkable capacity to bind groups, communities, and nations through imaginatively shared experiences and identities. However cynical one may become about the crass calculations of owners, sponsors, and athletes, it remains virtually impossible not to be swept up in the sublime achievements of exceptional athletes, or the shared euphoria when 'our side' wins a famous victory, and shared misery when it suffers a humbling defeat. Moreover, sport continues to lay claim to a particular affinity with widely admired (and eminently marketable) social values, such as discipline, courage, 'toughness', teamwork, and sacrifice. These values vary, depending on the historic attachments and identities of particular sporting teams and practices, but their continued vitality paradoxically increases their commercial appeal and 'marketing power' (e.g., van der Westhuizen and Swart 2011).

[4] While we argue that these trends were significantly *intensified* in the context of neoliberalism, it is worth noting that their origins and relationship with capitalist social dynamics are considerably longer and deeper. See, for example, Jhally 1984.

Sport and Globalization

The intensifying role of sport in IPE is most vividly reflected in the interplay between sport and neoliberal globalization. Globalization is, of course, a multi-dimensional and contested concept which, in the era of 'Trumpism' and resurgent nativism in many parts of the world may now be in decline. Nevertheless, it became the overarching rubric for the period from the mid-1970s onwards, which saw the demise of what John Ruggie (1982) termed the post-war 'compromise of embedded liberalism' combining free trade internationally with the elaboration of the welfare state and regulation of the political economy domestically.

Defined in the late 1980s by geographer David Harvey as a process of space-time compression, globalization has multiple faces, including cultural, technological, social, and migratory dimensions. Nevertheless, virtually all definitions of the most recent phase of globalization acknowledge the centrality of changing forms of economic production and exchange and thus the transnationalization of economic and social forces (see Talani (Chap. 26), this volume). Andrei Markovits and Lars Rensmann (2010, 26–28), among others, note that globalization is not a new historical phenomenon. They distinguish between 'first globalization', spanning roughly the period from 1860 to the onset of World War I in 1914, and 'second globalization' (referred to here as neoliberal globalization) beginning in the 1970s. Both were instrumental in diffusing and transforming modern sport. In the first globalization, the major team sports that have become the cornerstones of what they call 'hegemonic sports cultures'[5] attained global reach through processes of colonial and commercial penetration. In the second globalization, hegemonic sporting practices both reflected and carried the trend towards growing transnationalism and cosmopolitanism. There are several noteworthy manifestations of this process.

First, it has had important spatial impacts, as the leading clubs, leagues, tournaments, and players of high-performance sport have become increasingly concentrated in a handful of centres of global wealth and power, old and new. This trend is akin to the more long-standing process of dependent development, as highlighted (though not uncontroversially) by Dependency theories. In short, processes of 'development' in the world's top sporting leagues (e.g., Major League Baseball in North America and the Premiership,

[5] For example, ice hockey in Canada, baseball, American football, and basketball in the United States, soccer/football in much of the world, or rugby union in New Zealand and (white) South Africa.

Bundesliga, la Liga, and Serie A in European football) are integrally connected to the hollowing out, or 'underdevelopment' of leagues, clubs, and sporting cultures in athlete-producing countries like the Dominican Republic, Brazil, Argentina, Ghana, Côte d'Ivoire, or Nigeria, among others (see, e.g., Klein 2007). While most of the world's centres of wealth and power remain in the West, there are also sporting manifestations of escalating wealth and influence in, for example, the rising political economies of Asia—as reflected in the Indian Premier League within world cricket, or the pursuit of SMEs by China and Korea—a subject to which we will return.

Second, and closely related to these spatial ramifications, is the growth of athletic labour migration. Highly skilled athletes, like other highly skilled personnel, have become part of an increasingly footloose, cosmopolitan labour force performing in the world's top clubs and leagues, as well as far less lucrative second-tier clubs and competitions in the Global North. Concomitantly, there is a tendency towards hyper-specialization in a small number of sporting practices in peripheral political economies (e.g., distance running in Kenya, sprinting in Jamaica, baseball in the Dominican Republic, and football/soccer in many parts of the Global South) and growing outmigration of these athletic 'workers' to areas of relative opportunity (see Maguire 2008; Bale and Sang 1996). Finally, there has been a reverse flow of coaches from centres of sporting power to peripheral countries, where they take up posts as national team coaches—typically for brief, itinerant tenures—in what could be likened to technical assistance in the realm of foreign aid (e.g., Kainja 2013).

Third, in this context of increasingly footloose multinational capital and highly skilled labour, as well as the rise of the service economy (notably tourism), ambitious elites—both national and urban—have sought to use major league sports franchises and elite sporting competitions to enhance the 'brand' and marketing power of their communities and countries. There are distinct national variations of these practices. For example, in the United States, the pursuit and retention of sporting clubs and owners who can concretize claims to 'major league' status has fostered practices of 'civic paternalism' leading to 'no-vote subsidies' by public authorities for state-of-the-art stadiums, serving the needs of privately owned franchises (e.g., Kellison et al. 2017). In this way, processes of democratic accountability are truncated, and the opportunity costs of publicly subsidizing professional sport franchises versus increased spending on education or publicly accessible recreation facilities, for example, largely escape critical scrutiny and debate. In Europe, where clubs are not mobile in the same way as major league franchises in North America, there has been a trend towards transnational ownership of iconic clubs. Particularly noteworthy examples include Chelsea (with Russian

ownership), Manchester City (with ownership from the UAE), and Paris St-Germain (with Qatari ownership). This trend is not confined to such 'apex' clubs, however: it was recently reported, for example, that 16 of 20 teams in Spain's la Liga are either owned or co-owned by Chinese interests (*Overtime* 2017). Thus, we can see that local and national elites, or 'booster coalitions', seek to harness the marketing power of sport to enhance their economic and political interests, which they typically view as coterminous with the interests of the community as a whole. At the same time, wealthy interests from historically marginalized countries seek to harness the brand power of elite European clubs and leagues to enhance their own and/or their countries' prestige and influence. This leads us to a closer consideration of the nature and manifestations of branding in and through high-performance sport.

Branding and Sponsorship

In the current age, sport has become tightly interwoven with sponsorship. This powerfully co-dependent relationship involves the role of transnational corporations, national and professional sporting bodies, and the mass media. Perhaps most strikingly, Steven Jackson highlights how this link between sport, identity-based symbolism, and local and international corporations reflects and consolidates the dynamics of *corporate nationalism*, through which multinational corporations (MNCs) 'seek to capitalize upon the nation as a source of collective identification and differentiation' (Jackson 2014, 301).

This relationship has become widespread, given the rise in sport consumerism.[6] The branding power that sports offers (further explained below) exists in a highly competitive field; sport provides a lucrative source of revenue and is jockeyed over by various corporate and transnational conglomerates. Quite simply, sporting events and teams can act as a powerful stimulus for consumption—especially for brands that aim to align their product with legacies produced by and associated with sport (Jackson 2014). However, central questions remain: what exactly do corporations hope to achieve by aligning their interests with sport and the 'nation'? More specifically, why is sport such an attractive—and lucrative—vehicle for marketing and branding?

[6] As Jennifer Hargreaves writes, 'The commercialization of sports stimulated new needs and expectations—they had become firmly established as dramatic entertainment' (Hargreaves, p. 113). See also Betts 1974.

No example better illustrates this alignment of commercialism, national identity, and sport than that of the New Zealand Rugby All Blacks'. In their research on the All Blacks, Scherer et al. identified what this rugby team offers to the realm of corporate nationalism. Not only were the stories, legacies, and results of the All Blacks used for branding, but so were the 'core values' of the team. In the case of the All Blacks, these ideals were 'authenticity…humility, and respect' (Scherer et al. 2008, 59). Through its painstakingly negotiated sponsorship deal, the sporting goods multinational Adidas gained an exclusive relationship with the All Blacks and the core values it represented, while the Rugby team profited from the values of exclusivity and luxury associated with the Adidas brand (Scherer et al. 2008, 60). The global marketing power of this arrangement is particularly striking given New Zealand's small population size (roughly 4.7 million) and remote location, far from the major markets of North America, Europe, and Asia.

A similar case can be found within Canada, involving the Molson Canadian beer commercial, 'I AM CANADIAN!' (see Jackson 2014). In addition to individual "values" that sports teams possess, there are larger 'myths' of sport that provide an opportunity for powerful brand alignment with companies. For multinationals, these myths can foster an association between the game and the ideals that are projected through sport, including goodwill, discipline, and a sense of belonging. Moreover, sport—in addition to, or in conjunction with nationalism—is often interwoven with images of masculinity alongside 'representations of national symbols and myths' (Jackson 2014). As Alan Bairner describes, 'sport continues to play a greater role in the maintenance of distinctive national identities' (Bairner 2001, 175), and these identities are often distinctly masculinist. Sport can also be a means to link nationalism and product placement, most evidently in the association between advertising, sport, and patriotism. Seiler highlights the 'holy trinity of branding: sport, beer and masculinity' (Jackson 2014, 901). In the case of Canada, he found that most commercials and advertising messages were linked in binary terms, highlighting the attributes that made Canadians most unique in comparison to, particularly, the United States. Specifically, Seiler analyses the Molson Canadian commercial 'I AM CANADIAN!' to create an understanding as to why the advertisement was so successful.[7] In his assessment, he came to the following conclusions:

[7] In 2000, Adam Bryant, a writer for *Newsweek* stated 'The Rant' had become 'the unofficial anthem north of the border' (See Seiler, pg. 52).

In addition, the Molson Ad placed second in the *Cannes International Advertising Festival* in 2000 (Seiler, 60).

1. 'Young Canadians—young men especially—drink Molson Canadian;
2. Drinking Molson Canadian is a patriotic act, one that draws on and reinforces Canadians resistance to being consumed—eaten and drunk up—by the American colossus and offers a vehicle for "drinking in" Canadian identity' (Seiler 2000, 58).

In this example, rather than promoting ideals of exclusivity in relation to a single team, sport becomes a tool to illustrate, and exploit, a wider pan-Canadian Identity. Molson aligned its product, beer, to illustrate and exploit the larger myths of Canadian patriotism—an appeal crafted on ostensibly unique Canadian traits of individualism and a distinctly masculine understanding of 'Canadian-ness'. It is important to highlight that this relationship is often not equitable. Like most relationships, 'this "partnership" is constituted by disproportionate and fluctuating power relations' (Scherer et al. 2008, 63), with corporate power increasingly ascendant. However, it is evident that both sport and commercialism continue to benefit from their interrelationship, and to shape each other, while in the process exploiting and shaping national and other community identities.

The Rise (and Decline?) of Sports Mega-Events

No contemporary phenomenon better illustrates the complex relationships that have emerged in the nexus between sport and IPE than the extraordinary rise of SMEs. These events are diverse and increasingly numerous, ranging from the 'First Order', truly global sporting festivals of the Summer Olympics and the FIFA World Cup, through 'Second Order' competitions like the Pan-American and Commonwealth Games, Winter Olympics, or the Rugby World Cup, to a panoply of lesser yet still-high profile and sought-after events such as yachting's America's Cup, football's African Cup of Nations, or the Gay Games.[8] They are also the focus of an increasingly voluminous academic literature (e.g., Grix 2014; Horne and Manzenreiter 2006). At the apex of this trajectory has been the Olympic 'movement'. Always a locus of political activity and intrigue, even in the long era of amateurism during which the International Olympic Committee (IOC) held firmly to the mantra that politics had no place in the Olympic movement, the range of actors, agendas, objectives, and stakes associated with these events has multiplied since the onset of the commercialized Games, beginning with Los Angeles in 1984.

[8] On the expanding 'field' of Sport Mega-Events (SMEs), see Horne 2017.

It should be recalled that prior to these Games, the movement was in deep trouble, as a series of severe political and financial trials (the 1972 Munich Massacre, Montréal's financial debacle in 1976, the 1980 Moscow boycott, etc.) had discouraged virtually all potential hosts. Indeed, when Los Angeles was awarded the 1984 Games in 1978, it was the only bidder. With the onset of the IOC's 'rise to riches' (Hill 1996, 75–91), however, through co-related and increasingly lucrative television contracts, exclusive sponsorship agreements, and the recognition of these events' potential to anchor massive schemes for infrastructure renewal and urban regeneration, the Games' appeal to potential hosts grew dramatically. By the time the right to host the 2004 Games was being contested in the mid-1990s, there were 11 bidders. Of particular note was the growing interest of cities and countries from 'rising states' beyond Europe and North America in hosting this ultimate SME prize (see Black and van der Westhuizen 2004). In the contest to host the 2004 event for example, no less than six bidders (Cape Town, Buenos Aires, Istanbul, Rio de Janeiro, St. Petersburg, and San Juan) lay outside the historic centres of global wealth and power in Europe and North America.

What is particularly intriguing about this trend is the degree to which, notwithstanding the neoliberal ideological and policy reforms that triggered and enabled it, these events have become synonymous with new forms of 'public-private hybridities' and regulation that effectively shield the preparation process from market competition, democratic transparency, and public accountability. This makes them apt vehicles for channelling exceptional material opportunities (through special legislative provisions, construction contracts, re-zoning of public spaces, public infrastructure to enable private developments, etc.) to well-connected public and private interests (e.g., Raco 2014). Indeed, Jules Boykoff (2013), riffing off Naomi Klein's exploration of 'disaster capitalism', has characterized the potent mix of SMEs and contemporary capitalism as 'celebration capitalism', creating 'states of exception' within which powerful private- and public-sector groups are able to unlock public funds to decisively advance their material and political interests without adequate accountability or oversight. The upshot of the resulting scandals and controversies is that the Olympic movement is once again in crisis (see McAloon 2016). Two recent events—the Sochi Winter Olympics in 2014 and the Rio Summer Olympics in 2016—are particularly good illustrations of these growing contradictions and controversies.

The ***Sochi Games*** provide a striking example of the highly concentrated economic gain that was enabled by the build-up towards, and implementation of, the games themselves. These games were distinct in the opportunity

they created for mass transfers of wealth between Vladimir Putin and his network of oligarchs—money that was used to help with infrastructural development in the Sochi area. Specifically, the contracts and mutual favours associated with the games strongly reinforced a patron-client relationship between Putin and his cronies.

It is, of course, neither unique nor unexpected for governments to be closely involved in the preparations for the games. Even under more normal circumstances, as Clark (1998, 17) notes, 'with its control over taxes, spending and interest rates, governments can steer resources toward capital accumulation'. It can be seen that 'the state and economy are conflated in theory and practice' (Brzezinski 2008, 100). The point about SMEs is that they magnify the opportunities for state intervention and control. And, due to the increase in globalism, mega-events provide the perfect tool for the state to reaffirm its economic and fiscal control (Golubchikov 2016, 238).

However, even by the standard of Olympic 'states of exception', the Sochi 2014 games were extraordinary, as Putin himself directly oversaw and personally orchestrated projects related to the events. In 2007, Putin signalled the importance of the games, providing 'a US$12 billion capital commitment by federal and regional governments to fund the Games and build the infrastructure should Sochi win the bid' (Cha 2009, 37). Of course, as the Games approached, costs escalated wildly; the Sochi Games are now distinguished as the most expensive in history, with total expenditures estimated to have exceeded US$ 50 billion.[9] The interaction between state officials—in this case largely orchestrated by Putin—and local contractors resulted in the cementing of patrimonial linkages through building projects (see Sakwa, 235; Hale 2012; Laruelle 2012). Putin, in issuing Olympic contracts to Russian oligarchs, was able to ensure control over the wealth generated from the games *and* the elites who stood to profit from them, too.

The powerful business elites who benefitted financially from their involvement in the Olympics included 'Vladimir Potanin (head of the metals company Norilsk Nickle) and Oleg Deripaska (Chief of Rusal, an aluminum firm)'. Similarly, a large natural gas company, Gazprom, invested US$ 3 billion in infrastructure developments for the Games (Boykoff 2013, 55). Thus, the Olympic Games strongly reinforced a symbiotic relationship between the oligarchs and Putin, 'raising [the oligarch's] political and economic capital'

[9] It should be noted that SME costs are exceedingly difficult to pin down, since a wide range of infrastructure, security, and other ancillary expenses may or may not be seen as directly linked to the Games themselves.

and encouraging them to show political support for the state in return (Trubina 2014, 128).

The most notable example was the role of Vladimir Potanin. A local oligarch closely linked to Putin, Potanin was instrumental in building resorts in and around the Sochi area—most notably the Rosa Khutor Alpine Resort. While under development, costs escalated from US$ 350 million to US$ 2.07 billion (Golubchikov 2016, 242). The rocketing costs forced Potanin to borrow from the state; thus he, alongside other oligarchs, remained beholden to the state and was required to repay the loans used for developing Sochi within a short time period (Müller 2014, 635; Golubchikov 2016, 242).

In the process, there was a 'massive shift of Russian assets from public to private hands—this time under the cover of the Olympic rings' (Boykoff 2013, 56). As Golubchikov (2016) notes, many of the key sponsors (e.g., Gazprom and Rosneft) were also controlled by the state. In addition, 'key private investors took underwritten credits from state owned banks (such as VEB and Sberbank)' (240). Ultimately, these regional developments were instrumental in allowing Putin to test, and cement, the loyalty of his network of oligarchs. However, they also cast a shadow over the viability of the Olympic movement, as did a succession of controversies concerning the Russian government's policies towards LGBTQ visitors and participants, its aggression towards the Ukraine, and subsequent revelations of large-scale, state-orchestrated doping to ensure and later taint Russian competitive success.

When ***Rio de Janeiro*** was awarded the 2016 Summer Games in 2009, defeating bids from Madrid, Tokyo, and Chicago in the process, the decision was greeted with euphoria in Brazil, and was widely seen as a powerful symbol of the changing hierarchy of global wealth and power. Brazil and other 'BRICS'[10] were on the rise in a seemingly inexorable march towards heightened global influence. At the same time, the discourse surrounding Brazil's successful bid stressed the prospective legacy of the Games in decisively addressing the poverty and inequality of the country's past through an emphasis on social development and sustainability in the design of the bid (see Darnell 2012). This emphasis reflected the propensity towards 'magical thinking' in the Olympic movement's newfound emphasis on sport- and non-sport 'legacies' (see Manzenreiter 2014).

By the time the Games arrived, however, Rio had become a watchword for Olympic overreach. The country was mired in a protracted economic and

[10] Brazil, Russia, India, China, and South Africa.

political crisis—not caused by the back-to-back hosting of the FIFA World Cup (in 2014) and the Rio Games, but highlighting the steep opportunity costs of hosting the Games rather than focusing on badly neglected social services. The Games' hallmark development initiatives—the *Morar Carioca* program of housing improvements and the Units of Pacification Police (UPP) program for community policing, both aimed at improving conditions in Rio's famously impoverished *favelas*—stalled. On the other hand, the Olympic Village and Olympic Park, both located on the city's wealthy west side, ensured that new housing and infrastructure built for the Games directly benefited most those who needed it least (see Barbassa 2016; Gaffney 2014). And, within months of the closing ceremonies, the world-class venues built for the Games seemed well on their way to becoming classic 'white elephants' (Wade 2017). To be sure, the Rio Games produced a clutch of economic and developmental 'winners', but they were principally those who were already privileged.

Conclusion

The net effect of the Sochi and Rio experiences has been to push the Olympic movement back towards crisis, with a paucity of plausible hosts willing to take on the Games even under the improved terms and conditions which the IOC is now prepared to offer (see McAloon 2016). This is part of a larger, long-term shift in public and political attitudes towards SMEs, with fewer and fewer cities and countries prepared to suspend disbelief and embrace the 'magical thinking' that has underpinned the appeal of these events.

This is not, however, the end of elite, high-performance sport's engagement with IPE, but rather the beginning of a new chapter. Corporations, governments, national and international sport organizations, and consumers alike continue to invest heavily in the spectacle of sport, while its powerful association with shared values and identities sustains its unparalleled popularity and marketing power. Sport has an unrivalled ability to appeal to mass audiences and to permeate our everyday lives. It behooves students of IPE, therefore, to pay closer attention to the ongoing interplay between sport and wider structures of political-economic power and influence. There is much to be revealed through the study of sport in political economy and political economy in sport.

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41

The International Political Economy of Health

Jappe Eckhardt and Kelley Lee

Introduction

Traditionally, even up to the late twentieth century, International Political Economy (IPE) scholars have focused their attention on what were then considered core issue areas in the emerging global economy: the international trading system, international monetary system, role of multinational corporations, and enduring challenges of economic development (see, e.g. Oatley 2016; Ravenhill 2014). With rare exceptions (Thomas 1989), health was still deemed to primarily fall, not only within social policy but the domestic sphere of national governments. At the same time, mainstream health research rarely incorporated insights from IPE or IPE-related questions. Health policy was studied almost exclusively as a domestic concern of national and subnational governments, with 'international' providing comparative analysis of national contexts. The study of political economy, notably the interaction between actors and structures across the political and economic domains, was largely associated with neo-Marxist perspectives (Navarro 1975) and thus falling outside mainstream analysis of health policy in Anglo-American scholarship.

By the late twentieth century, the acceleration of economic globalization increased the spillover across national borders, by health determinants and

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outcomes, in scope and scale. The increased cross-border risks to the political and economic well-being of countries posed by infectious disease outbreaks, both perceived and real, led International Relations scholars to study pandemics as a new security issue (Fidler 1997). The challenges faced by the World Health Organization (WHO), in responding to new collective action needs arising from globalization, brought new attention from scholars of international organizations and global governance (Lee and Dodgson 2000). By the early 2000s, the transcendence of geography characterized a growing range of health issues, potentially rendering territorial boundaries irrelevant. Health has become a trans-border issue which circumvents, undermines, or is even oblivious to territorial boundaries and 'beyond the capacity of states to address effectively through state institutions alone' (Lee et al. 2002: 5). The term 'global health' has come to encompass both cross-border and trans-border phenomena, attracting a new generation of scholars from health and IPE. It is in this context that this chapter sets out health as an emerging issue in the study of contemporary IPE.

The Changing Role of the State and Market in Healthcare

Healthcare has historically been located at the level of national competence and thus seen as beyond the boundaries of IPE. However, an understanding of the IPE of health must invariably grapple with the question of whether healthcare should be publicly planned or subject to market forces. While answering this question, in principle, is the responsibility of national governments, in practice, since the late twentieth century, three powerful economic and political forces played an influential role in shaping three trends in healthcare reforms.

First, there has been a trend towards the *marketization* of healthcare (see, e.g. Jensen 2011). This concerns not only the creation of internal markets in the delivery of healthcare but various practices that shift the balance towards the use of market forces as an allocative mechanism of health-care resources. These practices include the contracting out of selected services (e.g. laundry, catering, cleaning, laboratory services); establishment of public-private partnerships (PPPs); competition among health-care providers; devolution of budgets; and increased autonomy for providers.

Second, there has been a related trend towards the *privatization* of healthcare as a policy instrument to relieve perceived pressures on public finances by reducing the role of the state (Janssen and van der Made 1990). This has been

enacted through the selling off of health-care facilities to private investors (e.g. long-term care); greater financing of healthcare through private insurance schemes and user fees; and increased delivery of health services through private providers. In Lower and Middle Income Countries (LMICs), constraints on domestic resources and health development assistance, alongside limited capacity of the public sector, have been rationales used by the World Bank, International Monetary Fund (IMF), and other major donors to press governments to enact privatization policies (McIntyre et al. 2006).

Third, and to a much lesser degree, there has been a trend towards the *internationalization* of healthcare in the form of increased cross-border mobility of health-care financing and service provision across national borders. The migration of health-care workers, for example, has led the WHO to identify 57 countries as having a 'critical shortage' as a result of 'structural imbalances in resource allocation and global incentive structures' (Mackey and Liang 2012: 66). The remarkable growth in the cross-border provision of medical services to patients travelling abroad, broadly known as medical tourism, has been linked to trends in globalization and liberalization. It is predicted that this trade will grow by 25% per year between 2016 (US$ 100 billion) and 2025 (US$ 1 trillion), with 3–4% of the world's population travelling abroad for medical treatment (Ile and Tigu 2017).

For all three trends, there has been extensive debate about the appropriate balance between the state and market to achieve efficient and effective healthcare provision. The shift since the late twentieth century, towards an increased role for the market, has been the subject of much critical analysis by public health researchers within a diverse range of countries at different levels of development and regions. The consequences of neoliberal policies on access to healthcare and health outcomes, especially in LMICs, have received particular attention (e.g. Rowden 2011). There has been limited analysis by IPE scholars to date on how these trends, while played out at the national level, are shaped by powerful political and economic forces on an increasingly global scale.

The Health Impacts of a Restructured Global Economy

Debates about the emerging nature and impacts of the global economy have been central to the study of IPE. The impacts of the global economy, both directly and indirectly, on health determinants and outcomes have received substantial scholarly attention. The direct impacts stem from changes in the production, distribution, and consumption of potentially health-harming

goods and services. The central question arising is to what extent these changes—through increased commodification, restructuring of production, and liberalization of trade and investment—are contributing to shifting patterns of health and disease worldwide.

The impact of the global economy on health inequalities has been one major focus on concern. Stark differences in basic indicators, such as life expectancy at birth, infant and maternal mortality rates, and incidence of disease, show that health inequalities between countries, and across specific populations, are enduring and potentially widening. The extent to which these trends are associated with the nature of the global economy remains subject to debate. Neoliberal theory argues that, like boats in a harbour, economic growth from accelerated globalization benefits all countries, even if there is a time lag to allow for 'trickle down effects' (e.g. Dollar and Kraay 2004). Others, however, argue that the restructuring of production and exchange relations within a global economy have created 'winners' and 'losers' within and across countries which, in turn, are creating new patterns of health and disease. The work of Vicente Navarro (2000; 2007), for example, focuses on the social inequalities created by neoliberalism and globalization. Similarly, Benatar et al. (2011: 646) argue that 'the present dominance of perverse market forces on global health' has created conditions whereby 'disparities in wealth and health have persisted and, in many places, widened'. Labonte and Schrecker (2007: 1) locate globalization as a key context for the study of the social determinants of health, defined as 'the conditions in which people live and work, and that affect their opportunities to lead healthy lives,' and seek to map pathways impacting on health from an equity lens.

The rapid spread of infectious diseases such as HIV/AIDS and the increase in the global incidence of non-communicable diseases (NCDs) since the late twentieth century have also been linked to economic globalization (see, e.g. Altman 1999; Zimmet and Alberti 2006). Data suggests that the 'epidemiological transition' model, by which societies gradually move from a higher incidence of communicable diseases to NCDs, as part of the transition from developing to developed economies (Omran 1971), does not fully describe contemporary trends. Rather, all countries have experienced an unprecedented rise in NCDs, such as cancers, diabetes, hypertension and coronary heart disease, regardless of development trajectory. Nor is this rapid increase easy to explain by demographic trends (e.g. ageing). For many low-income countries, this has meant a 'double burden' from both disease categories. Public health scholars have turned to interrogating the nature of global economic development per se, and whether changes in the production and consumption of certain types of goods and services (e.g. ultra-processed food

and beverages, tobacco and alcohol products), and broader shifts in lifestyle or employment patterns (e.g. physical labour to mechanized production, information economy), all associated with economic globalization, can offer a fuller explanation.

Analysis of the increased risks arising from economic globalization is well illustrated by the tobacco industry. Since the 1980s, declines in smoking prevalence in the 'traditional' markets of North America and Europe, due to accumulating scientific evidence on tobacco and health, accompanied by stronger regulation, have led tobacco companies to seek new markets in LMICs. The ensuing competition for 'emerging markets' has coincided with economic globalization, leading tobacco companies to adopt business strategies that have enabled them to 'go global' (Lee and Eckhardt 2017). At the firm level, major tobacco companies have pursued mergers and acquisitions, internationalization of staff, operational restructuring, intensified marketing, and the creation of global value chains (GVCs) and brands. Measures under preferential trade and investment agreements, a core feature of economic globalization, has facilitated tobacco industry globalization. From the late 1980s, US tobacco companies worked through the US Trade Representative to successfully pressure five Asian countries to liberalize their cigarette markets. In 1995, transnational tobacco companies (TTCs) successfully threatened legal action against the Canadian government under the terms of the North American Free Trade Agreement (NAFTA) if a new plain packaging policy was adopted (Physicians for a Smokefree Canada 2008). The chilling effect of this strategy worked until Australia adopted the policy in 2011, prompting TTCs to launch several actions, many through proxy governments, that the policy violated rules of the World Trade Organization (WTO) and various bilateral investment agreements (Curran and Eckhardt 2017).

At the industry level, industry ownership has become highly concentrated, dominated by a small number of economically and politically powerful TTCs, capable of operating on a global scale (Lee et al. 2016). In 2017, five companies held 79.6% of the global cigarette market worth around US$ 684 billion in retail sales (Campaign for Tobacco Free Kids 2017). This increased concentration of ownership, a defining feature of the global economy (Dunning and Lundan 2008) and is mirrored in other health-related industries including food and beverage, alcohol, pharmaceuticals, and health insurance. In the production and consumption of health-promoting goods and services, in theory, increased economies of scale, efficiency gains, higher productivity, improved logistics, and lower costs generate potential health gains. However, when economic globalization increases the production and consumption of intrinsically health-harming products (i.e. tobacco), from the

increased concentration of ownership in the hands of powerful for-profit transnational corporations, this is a form of market failure that creates increased adverse impacts on health. This gives rise to questions concerning the exceptionalism of some industries or products, and core IPE questions regarding the desired role of state and market in their operation. Callard et al. (2005: 278), for example, argue that '[t]he elimination of profit driven behaviour from the supply of tobacco would enhance the ability of public health authorities to reduce tobacco use. Future tobacco control strategies can seek to transform the tobacco market from one occupied by for-profit corporations to one where tobacco is supplied by institutions that share a health mandate and will help to reduce smoking and smoking related disease and death.'

The IPE of Corporate Actors in Global Health

An understanding of the relative roles of state and market actors within the global economy lies at the heart of IPE scholarship on, for example, trade policy (Milner 1988; Dür 2008) and monetary and financial affairs (Frieden 1991; Underhill and Zhang 2008; see also Hveem (Chap. 3), this volume). The ascendance of corporations, as a defining feature of economic globalization since the late twentieth century, has been a core focus of this literature. Corporate actors have become correspondingly prominent in the production and exchange of health-related goods and services within the global economy. As described above, consolidation of ownership in these industries has led to domination by an increasingly few transnational corporations. Corporations develop, produce, and sell health-harming products like tobacco and alcohol to consumers, while governments try to regulate these markets. At the same time, other types of companies are responsible for the production of medicines as well as therapeutic and diagnostic equipment used in hospitals (which are often state owned/financed) to diagnose and cure people and, in many countries, private actors provide health-care services.

In addition to their role in production and exchange relations, corporate actors in global health are actively seeking to shape, formulate, and implement health policies. The costs of staying on the sideline for them can be very high, that is, the negative consequences of regulation/legislation on their competitiveness (Buse and Lee 2005). While business interests have always sought policy influence, as a result of globalization, the role of corporate actors in global health governance (GHG) has become even more important. Buse and Lee (2005: 6) explain why this is the case:

> The advent of globalisation has amplified the impact of the commercial sector on health by extending the reach and scale of global firms and industries, by increasing the concentration of ownership in specific industries, by changing how goods and services are produced, marketed, traded and sold, and in some situations by altering the balance of power between public and commercial sectors and hence the regulatory framework which governs commercial activities and their impact on health.

In light of these changes and dynamics, IPE helps to explain the political interaction between political and economic actors in the realm of GHG. Most attention has so far been paid to two core themes: interests and institutions. On *interests*, IPE helps to understand the political tactics and impacts of corporate actors in the realm of GHG. Previous analysis of TTCs is noteworthy, in this regard, because of the public release of internal tobacco industry documents since the late 1990s. As a result, IPE scholars have contributed a detailed picture of the political strategies and influence of TTCs (Holden and Lee 2009; Bump and Reich 2013). We now have a detailed understanding of the many ways through which TTCs, have tried to wield influence over economic policy and legislation. Research has also shown that, given their historically high degree of access to policymakers and officials at the national and the international level, TTCs, efforts to influence foreign economic policy outcomes have been highly successful. For instance, in their analysis of British American Tobacco (BAT) lobbying efforts in Latin America in the 1990s, Holden and Lee (2011) show how the company was able to convince policymakers within the Central American Common Market to protect the companies' dominant position in the region by maintaining high external tariff rates for cigarette imports of BAT's competitors while reducing external tariffs for key inputs. Others have shown that, as political interaction with TTCs has become more controversial, TTCs have become political pariahs in many countries (Brandt 2012). This has prompted the industry to seek ways of reclaiming legitimacy, as economic stakeholders, and maintain access to relevant decision-makers. Tactics have included working through third parties (e.g. think tanks, advocacy groups, paid consultants, and scholars) and contributing to corporate social responsibility (CSR) initiatives (Fooks et al. 2013; Smith et al. 2015). Although the tobacco industry has received the bulk of scholarly attention, due to the availability of internal documents, the political tactics used by other health-related industries to further their interests have begun to be studied. This includes important analyses, for instance, on the pharmaceutical (Abraham 2002; Grover et al. 2012) and alcohol industries (Hawkins et al. 2012, 2016; Jernigan 2012).

Second, IPE scholars have begun to study the links between *institutions*, corporate actors and GHG. This concerns, in particular, how business-government relations are affected by the transnationalization of firms and the institutional complexity of contemporary GHG (Fidler 2010). Growing links between health and other issue areas, notably trade and investment, means policymaking and regulation take place not only nationally but regionally (e.g. the European Union) and globally (e.g. Group of Eight, Organization for Economic Cooperation and Development). This has led to increasing 'regime complexity' which provides transnational corporations with ample opportunities to engage in 'forum shopping,' targeting those institutions that are most favourably disposed towards their policy preferences. Examples in the field of GHG include TTCs use of the WTO Dispute Settlement System (Eckhardt et al. 2016; Curran and Eckhardt 2017) and Investor-State Dispute Settlement mechanisms within bilateral investment treaties to challenge domestic tobacco control policies (Hawkins and Holden 2016).

A related strand of this institutional literature focuses on the increasingly active and direct role that firms play in regulating public health. As well as adapting to economic globalization, transnational corporations have pursued their interests by seeking to shape the institutional frameworks and regulatory parameters of the global economy. Two types of regulation can be distinguished. *Self-regulation* concerns 'efforts by private companies to set and enforce their own rules and policies for operating within a specific domain' (Buse and Lee 2005: 17). This includes industry promotion of voluntary codes, as part of CSR initiatives (Fooks et al. 2013), such as 290 initiatives by SpiritsEurope (2016) to promote 'responsible drinking' (i.e. drinking and driving, underage drinking); the Children's Food and Beverage Advertising Initiative initiated by the food industry in 2007 'to shift the mix of foods advertised to children under age 12 to encourage healthier dietary choices and healthy lifestyles' (Sharma et al. 2010); and International Federation of Pharmaceutical Manufacturers and Associations (IFPMA) Code of Practice (Grover et al. 2012). *Co-regulation* involves public and private actors coming together on an agreed set of sectoral or cross-sectoral policies or regulatory objectives to be implemented by the sector(s) in question (Buse and Lee 2005). One way through which international organizations can co-regulate for instance is through a process called 'orchestration' in which third parties are brought 'into the governance arrangement to act as intermediaries between itself and the targets, rather than trying to govern the targets directly' (Abbott et al. 2015: 3; for an application to global health see Hanrieder 2015). A prominent example is PPPs in which 'non-state actors are directly involved in political steering, and co-govern along with state actors' (Schäferhoff et al. 2009: 451).

The Health Implications of Emerging Powers in the Global Economy

The trend towards multipolarity in world order has also been playing out in the health sector, reflected in the rise of emerging state and market powers. The increasing prominence of emerging powers, notably China, Brazil, India and South Africa, in global health has signalled a steady shift in policy-making influence away from traditional donor countries such as the US and European countries. Of particular note is the rapid growth of Chinese health development assistance, increasing 146% for 2009–2013 (US$3.8 billion) over the previous five-year period (Shajalal et al. 2017).

Alongside state actors, there are also emerging market actors in global health. In an analysis of the global business strategies of five Asian tobacco companies, Lee and Eckhardt (2017) examined the factors behind the push for globalization, the specific globalization strategies pursued, and the extent each company has globalized to date. They show how in Japan (JTI), South Korea (KT&G), and China (CNTC), the state-owned domestic tobacco companies have engaged in far-reaching global market expansion and in the case of JTI and KT&G have already achieved TTC status, while the CNTC is poised to dwarf all existing global companies. In Thailand and Taiwan, the local tobacco companies will likely remain domestic or at best become regional companies. This global expansion of Asian tobacco companies will increase global competition, which, in turn, will intensify marketing, exert downward price on pressures along the global value chain, and encourage product innovation and hence likely lead to increased consumption.

Importantly, study of the IPE of health requires understanding of how emerging state and market actors interact in asserting political or economic power. An example of such a study is a recent analysis of the opposition lodged within the WTO against efforts by member states to strengthen tobacco control measures by Eckhardt et al. (2016). The authors find that almost all recent opposition against tobacco control within the WTO comes from upper-middle-income (UMI) countries like Cuba and the Dominican Republic, or lower-middle-income (LMI) countries such as Honduras, Indonesia, the Philippines, and Ukraine. Some low-income countries were also very active: Kenya, Malawi, and Zambia. This is striking, as in the past most objections against tobacco control policies in the WTO or via GATT came from developed countries. The authors argue that the reason behind this change is that TTCs have shifted their lobbying efforts from developed to developing countries. TTCs have increasingly been excluded from policy-making processes in a number of high-income countries, while retaining

influence in lower-income countries. In this context, it is a rational strategy for TTCs to turn to lower-income countries to represent their interests via an organization like the WTO, where any member state can initiate a dispute or raise a concern.

The IPE of Global Health Governance

A key question in the IPE of health is how economic globalization changes the way health is or should be governed at the global level. Many authors are critical of the current state of GHG (see Fidler 2007 for a literature review). Kay and Williams (2009: 2), for instance, argue 'that there is a wider political economy of global health that is increasingly market driven, and that only by understanding the structuring role of this political economy can we adequately explain the disjuncture between global health needs and contemporary governance'.

Recent GHG literature recognizes that there are increasing linkages between health policy and typical IPE policy areas such as trade and finance. As a result of these linkages, the institutional environment in which health policy is conducted is changing and, therefore, GHG scholars came to realize that there is a need 'to define and address the determinants of health from a multi-sectoral perspective' (Dodgson et al. 2002: 18) and started to use insights from IPE in their work. Particularly noteworthy in this regard is the research on the growing role of international economic organizations like the World Bank, IMF, WTO in GHG, as well as on the increasing importance of economic agreements on health policy (see, e.g. Lee et al. 2002; Kawachi and Wamala 2006; Hanefeld 2015).

A series of discussion papers published by the London School of Hygiene & Tropical Medicine and the WHO on GHG were instrumental in setting out this new research agenda (see in particular, Dodgson et al. 2002). The themes discussed in these papers have been fleshed out in subsequent publications, such as the edited volumes and textbooks by Lee et al. (2002), Kawachi and Wamala (2006), Kay and Williams (2009), MacLean et al. (2009), and Hanefeld (2015). Although the exact focus and aim of the aforementioned scholarship differs, they all deal in one way or the other with the effect of globalization on health and in turn on how health policymaking takes places in a globalized world. The focus of this body of work is not just on the IPE side of the equation—in fact, IPE is not even always mentioned explicitly—but they all touch upon three interrelated issues that are at the very core of IPE as a field of study.

Conclusion

While political economy has been a long-standing lens used to analyse state-market relations within the health sector, largely from a critical perspective, the extension of political economy to the international or global level has been more limited. Only since the beginning of the twenty-first century have scholars started to apply insight from IPE to the study of health at the global level in a systematic fashion. This emerging field of scholarship has shown how the growing linkages between health and other policy fields such as trade and investment have changed the political environment in which (global) health policy is conducted. Another key focus has been on the increasingly important role played by private actors in health governance and policymaking. Scholars have looked, in particular, at the interests and political power of corporations and how (changing) institutions shape business-government relations.

We see several avenues for further research. Firstly, more attention should be paid to how the globalization of production and investment affects business-government relations and health policy outcomes. Scholars could draw on insights from recent IPE research on GVCs to further develop this research agenda (see, e.g. Gereffi et al. 2005). This research has shown that the establishment of GVCs, as a key characteristic of the contemporary world economy, has major implications for policy preferences of firms, as well as their lobbying behaviour and, ultimately, for decision-making (Eckhardt and Poletti 2016). These insights seem highly relevant for the IPE of health as well.

Secondly, although research on regime complexity in (global) health governance has increased in recent years (Fidler 2010), further research is needed to better understand, as Alter and Meunier (2009: 13) put it, how international regime complexity impacts 'decision-making and political strategies, as well as empower some actors and interest groups'.

Finally, there is scope for more research adopting ideas-based approaches to IPE (see Sinclair and Schirm (Chaps. 5 and 7), respectively both this volume). Such approaches have, as Harmer (2011: 704) describes, the 'potential to illustrate how ideational factors construct global health policy, or how the identities and interests of public and private actors might be reconstructed through partnership'. Such a research agenda should include the role of (international) non-governmental organizations and epistemic communities. The research by Williams and Rushton (2009) on 'the global biomedical epistemic community,' which has been able to wield influence on health policy by means of persuasion and justification of particular (scientific) approaches and

solutions, could serve as an example in this regard. Likewise, scholars could also pay more attention to the fact that policy outcomes that advance corporate interests are shaped, not only by material power but by power derived from *ideas*. Evidence suggests that, alongside the accumulation of material power, corporate actors have increased their capacity to shape the core ideas and discourses underpinning regulatory frameworks in ways that support their interests. Examples include the tobacco industry's use of language concerning smoking as a personal choice, the need for 'sensible regulation,' and commitment to 'harm reduction'; the food industry's emphasis on 'balanced diets' including treats; and alcohol industry's focus on 'risky behaviours.' Across all three industries, shining the spotlight on the behaviour of consumers has been an effective way of keeping regulatory debates away from calls for change to industry practice.

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