



**GLOBAL  
POLITICAL  
ECONOMY**

THEORY AND  
PRACTICE

SECOND  
EDITION

THEODORE H. COHN

# GLOBAL POLITICAL ECONOMY

Second Edition

Wendun H. Cohen

University of Toronto



Routledge  
Taylor & Francis Group  
London and New York



# GLOBAL POLITICAL ECONOMY: THEORY AND PRACTICE

Second Edition

Theodore H. Cohn  
*Simon Fraser University*



New York San Francisco Boston  
London Toronto Sydney Tokyo Singapore Madrid  
Mexico City Munich Paris Cape Town Hong Kong Montreal

*To Shirley*

Vice President and Publisher: Priscilla McGeehon  
 Executive Editor: Eric Stano  
 Associate Editor: Anita Castro  
 Senior Marketing Manager: Megan Galvin-Fak  
 Media Supplements Editor: Patrick McCarthy  
 Production Manager: Joseph Vella  
 Project Coordination, Text Design, and Electronic Page Makeup: Shepherd, Inc.  
 Cover Design Manager: John Callahan  
 Cover Designer: Maria Illardi  
 Cover Illustration: Digital Imagery © 2002 PhotoDisc, Inc.  
 Manufacturing Buyer: Dennis J. Para  
 Printer and Binder: Maple-Vail Book Manufacturing Group  
 Cover Printer: Coral Graphics Services

**Library of Congress Cataloging-in-Publication Data**

Cohn, Theodore H., 1940—  
 Global political economy : theory and practice / Theodore H. Cohn.—2nd ed.  
 p. cm.  
 Includes bibliographical references and index.  
 ISBN 0-321-08873-5 (alk. paper)  
 1. International economic relations. 2. International trade. 3. International finance.  
 I. Title  
 HF1359.C654 2002  
 337—dc21

2002016066

Copyright © 2003 by Addison Wesley Longman, Inc.

All right reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher. Printed in the United States.

Please visit our website at <http://www.ablongman.com>

ISBN 0-321-08873-5

2 3 4 5 6 7 8 9 10—MA—05 04 03 02

321  
08873

# Contents

*Preface* ix

**Part I Introduction and Overview 1**

**Chapter 1 Introduction 3**

- What Is International Political Economy? 6
- Why Is IPE a Relatively New Area of Study? 8
- The Purpose and Themes of This Book 10
- The IPE Theoretical Perspectives 16
- Focus of This Book 18

**Chapter 2 Managing the Global Economy Since World War II: The Institutional Framework 25**

- Global Economic Relations Before World War II 26
- The Functions of the International Monetary Fund, the World Bank, and General Agreement on Tariffs and Trade 31
- The International Economic Organizations and the United Nations 32
- Postwar Economic Institutions and the Advanced Industrial States 33
- Postwar Economic Institutions and the Third World 45
- Postwar Economic Institutions and the Centrally Planned Economies 52
- Postwar Economic Institutions and Civil Society 56
- Conclusion 58

**Part II The Theoretical Perspectives 67**

**Chapter 3 The Realist Perspective 69**

- Basic Tenets of the Realist Perspective 70
- The Mercantilists 72

|                  |  |            |
|------------------|--|------------|
|                  | Realism and the Industrial Revolution                    | 73         |
|                  | Realism in the Interwar Period                           | 75         |
|                  | Realism in the Post-World War II Period                  | 75         |
|                  | The Revival of Realist International Political Economy   | 76         |
|                  | Hegemonic Stability Theory                               | 77         |
|                  | Realism and the Role of the State in IPE                 | 83         |
|                  | Realism and North-South Relations                        | 84         |
|                  | Critique of the Realist Perspective                      | 86         |
| <b>Chapter 4</b> | <b>The Liberal Perspective</b>                           | <b>93</b>  |
|                  | Basic Tenets of the Liberal Perspective                  | 93         |
|                  | Orthodox Liberalism                                      | 96         |
|                  | The Influence of John Maynard Keynes                     | 97         |
|                  | Liberalism in the Postwar Period                         | 98         |
|                  | A Return to Orthodox Liberalism                          | 99         |
|                  | Liberalism and Institutions                              | 100        |
|                  | Liberalism and Domestic-International Interactions       | 106        |
|                  | Liberalism and North-South Relations                     | 108        |
|                  | Critique of the Liberal Perspective                      | 111        |
| <b>Chapter 5</b> | <b>The Historical Structuralist Perspective</b>          | <b>119</b> |
|                  | Basic Tenets of the Historical Structuralist Perspective | 120        |
|                  | Karl Marx and IPE  | 122        |
|                  | Marxist Studies of Imperialism                           | 123        |
|                  | Dependency Theory  | 125        |
|                  | Whither the Historical Structuralist School of IPE?      | 131        |
|                  | Conclusion   | 140        |
| <b>Part III</b>  | <b>The Issue Areas</b>                                   | <b>147</b> |
| <b>Chapter 6</b> | <b>International Monetary Relations</b>                  | <b>149</b> |
|                  | The Balance of Payments                                  | 150        |
|                  | Government Response to a Balance-of-Payments Deficit     | 152        |
|                  | International Monetary Relations before Bretton Woods    | 156        |
|                  | The Formation of the Bretton Woods Monetary Regime       | 158        |
|                  | The International Monetary Fund                          | 159        |
|                  | The Functioning of the Bretton Woods Monetary Regime     | 161        |
|                  | The Regime of Floating (or Flexible) Exchange Rates      | 169        |
|                  | Alternatives to the Current Monetary Regime              | 171        |
|                  | European Monetary Relations                              | 172        |
|                  | The Role of the Japanese Yen                             | 176        |
|                  | The Role of the U.S. Dollar                              | 177        |
|                  | Conclusion   | 178        |

|                   |   |            |
|-------------------|---|------------|
| <b>Chapter 7</b>  | <b>Foreign Debt</b>   | <b>187</b> |
|                   | What Is a Debt Crisis?  | 188        |
|                   | The Origins of the 1980s Debt Crisis                                    | 188        |
|                   | The Foreign Debt Regime   | 194        |
|                   | Strategies to Deal with the 1980s Debt Crisis                           | 202        |
|                   | The Emerging Economies and Foreign Debt                                 | 210        |
|                   | The Debt Crisis and the Changing Roles of the IMF<br>and the World Bank | 213        |
|                   | The IMF, the World Bank, and the Debtor Countries                       | 215        |
|                   | Conclusion  | 216        |
| <br>              |   |            |
| <b>Chapter 8</b>  | <b>Global Trade Relations</b>   | <b>225</b> |
|                   | Trade Theory  | 226        |
|                   | Global Trade Relations Before World War II                              | 230        |
|                   | GATT and the Postwar Global Trade Regime                                | 231        |
|                   | Principles of the Global Trade Regime                                   | 233        |
|                   | Formation of the World Trade Organization                               | 240        |
|                   | The WTO and the Global Trade Regime                                     | 244        |
|                   | The Third World and Global Trade Issues                                 | 246        |
|                   | The Emerging Economies and Global Trade Relations                       | 252        |
|                   | Civil Society and Global Trade Relations                                | 259        |
|                   | Conclusion  | 260        |
| <br>              |   |            |
| <b>Chapter 9</b>  | <b>Regionalism and the Global Trade Regime</b>                          | <b>273</b> |
|                   | Regionalism and Globalization   | 275        |
|                   | A Historical Overview of Regional Trade Agreements                      | 276        |
|                   | What Are the Reasons for the Rise of Regionalism?                       | 278        |
|                   | Europe  | 287        |
|                   | The Western Hemisphere  | 293        |
|                   | East Asia   | 303        |
|                   | Conclusion  | 309        |
| <br>              |   |            |
| <b>Chapter 10</b> | <b>Multinational Corporations and Global Production</b>                 | <b>319</b> |
|                   | Definitions and Terminology   | 320        |
|                   | Why Do Firms Become MNCs?   | 322        |
|                   | The Historical Development of Foreign Direct Investment                 | 323        |
|                   | MNCs and Host Country Relations: Theoretical Approaches                 | 332        |
|                   | Changes in Host Country Policies Toward MNCs                            | 335        |
|                   | The Relationship Between Home Countries<br>and Their MNCs               | 341        |
|                   | A Regime for FDI: What Is to Be Regulated?                              | 348        |
|                   | Bilateral Investment Treaties   | 349        |
|                   | The UN  | 351        |

|   |     |
|---|-----|
| GATT/WTO  | 353 |
| Regional Approaches: The European Union and North American Free Trade Agreement | 354 |
| The Organization for Economic Cooperation and Development                       | 355 |
| Private Actors  | 358 |
| Conclusion  | 360 |

**Chapter 11 International Development 371**

|  |     |
|--|-----|
| The IPE Perspectives and North-South Relations | 375 |
| The World Bank Group                           | 376 |
| Import Substituting Industrialization          | 382 |
| Socialist Development Strategies               | 385 |
| Export-Led Growth                              | 387 |
| The Revival of Orthodox Liberalism             | 395 |
| Another Shift in Development Strategy?         | 400 |
| Conclusion                                     | 406 |

**Part IV Concluding Comments 415**

**Chapter 12 Current Trends in the Global Political Economy 417**

|                                     |     |
|-------------------------------------|-----|
| Globalization                       | 417 |
| North-North Relations               | 425 |
| North-South Relations               | 430 |
| A Final Word on Theory and Practice | 434 |

|   |     |
|---|-----|
| <i>Appendix: Acronyms and Abbreviations</i> | 439 |
| <i>Glossary</i>                             | 441 |
| <i>Selected Bibliography</i>                | 453 |
| <i>Index</i>                                | 481 |