

Which statement do you agree with most?

- A. Embedded Liberalism and US Hegemonic Stability created a world that was growing faster economically and was more stable and more equitable than the world under Neo-liberalism
- B. The World under neo-liberalism created better conditions for economic growth for the developing world that they had experienced under embedded liberalism and U.S. hegemony

True or False?

- Neo-liberalism is the same thing as political liberalism
- A. True
- B. False

Review: From Embedded Liberalism and Hegemonic Stability to Neo-liberalism and a world without a hegemon

- Embedded Liberalism under US Hegemony
 - Economic Growth of the Industrialized World and Japan
 - Developing World and Socialist world were not part of the Embedded Liberal System
- Role of the Cold War
 - Division of Global Political Economy into the Embedded Liberal World and the Socialist World
 - Battle of ideas for the allegiance of the Developing /Underdeveloped World
- Why US Hegemony Declined
 - Sacrifices led to decline of US Trade position
 - Cold War spending (primarily Vietnam War) led to depreciation of the Dollar
 - Closing of the Gold Window and US retreat into economic nationalism
- The Rise of Neo-Liberalism –return of Economic Liberalism--in the Absence of Hegemony
 - Shrinking the Welfare state
 - Global recession and rise of Developing country debt
 - New roles for international institutions

The Consequences of Neo-liberalism: Globalization, global inequality, shifting world power



Today's Agenda

- I. What is Globalization?
- II. Why Globalization? The Underlying Causes: Triumph of Economic Liberalism and the Market
- III. The Effects of Globalization
 - A. The economic liberal view
 - B. The Political liberal view
- IV. The Economic Nationalist View: Shifting World Power
- V. Theoretical Perspectives on Shifting World Power
- VI. Long-Term Effects of Power Shifts for the Economic Nationalist

I. **What is Globalization? A triumph of Economic Liberalism**

- A. Mobility and Speed: their importance in a market economy
- B. Economic Networks of interdependence
 - Trade
 - Capital flows
 - Labor migration, diaspora communities, cross-border remittances
- C. Communication and transportation networks
 - Networks linking soldiers, criminals, terrorists
 - Advocacy networks
 - Religious organizations
 - Social networks
- D. And no longer local
 - Pandemics
 - pollution

II. The Underlying Causes of Globalization: A. Technology

New technologies

```
graph TD; A[New technologies] --> B[Spread idea of freedom and importance of the market for economic growth]; B --> C[Leading to the Fall of Communism]; C --> D[Spread of the market around the world]; D --> E[Increasing efficiency → more new technologies of speed and mobility];
```

Spread idea of freedom and importance of the market for economic growth

Leading to the Fall of Communism

Spread of the market around the world

Increasing efficiency → more new technologies of speed and mobility

B. Ideas and Ideology

Neo-liberalism and the “Washington Consensus”



Convergence of policies (race to the bottom)



Convergence of Standards



Convergence of cultures..



Easing cross border interdependence

III. Effects of Globalization

- A. Changing nature of trade—growth of **services** worldwide
- B. Growth of global **finance** and change in its nature
- C. Flow of capital to “**emerging markets**”

1. Changing Nature of Trade: from Raw materials to services



Trade in services is revolutionizing industry, affecting governments and international politics

- Location is becoming an anachronism
- Haircuts yoked to one place but not
 - Medical care?
 - Education?
 - Entertainment?

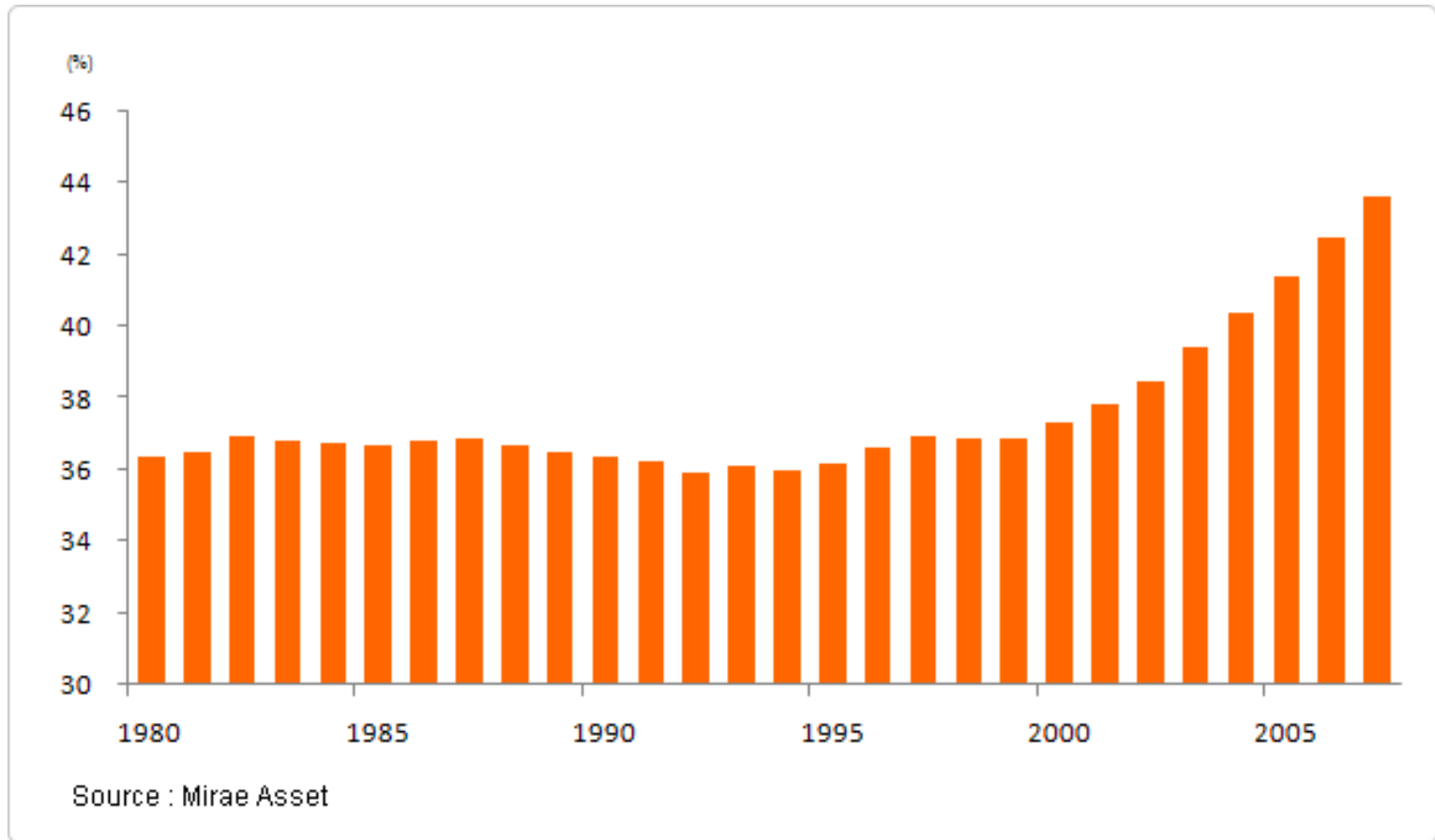
Teleradiology

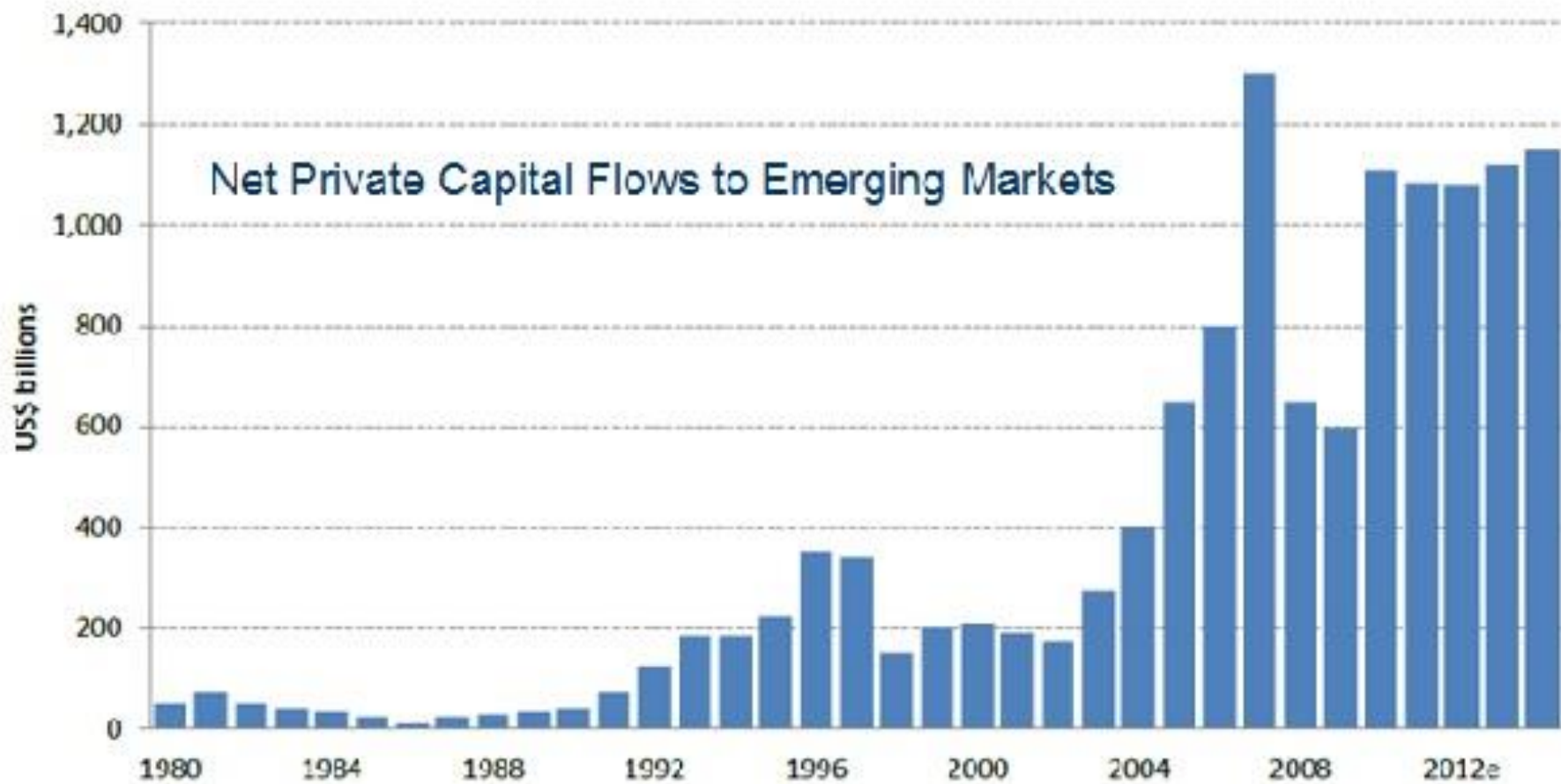


2. International Finance has changed dramatically

- FDI/portfolio investment was as large in 1914 as it is today but most for raw materials extraction
- Now: high tech and completely global, supporting all production and services.
- Global growth of non-bank lending, mutual funds
- Growth of securitization Remains completely unregulated.
 - Disciplines governments to ensure that policies are sound
 - States can no longer close their economies. ISI is a relic of the past?
- Pooling of risk

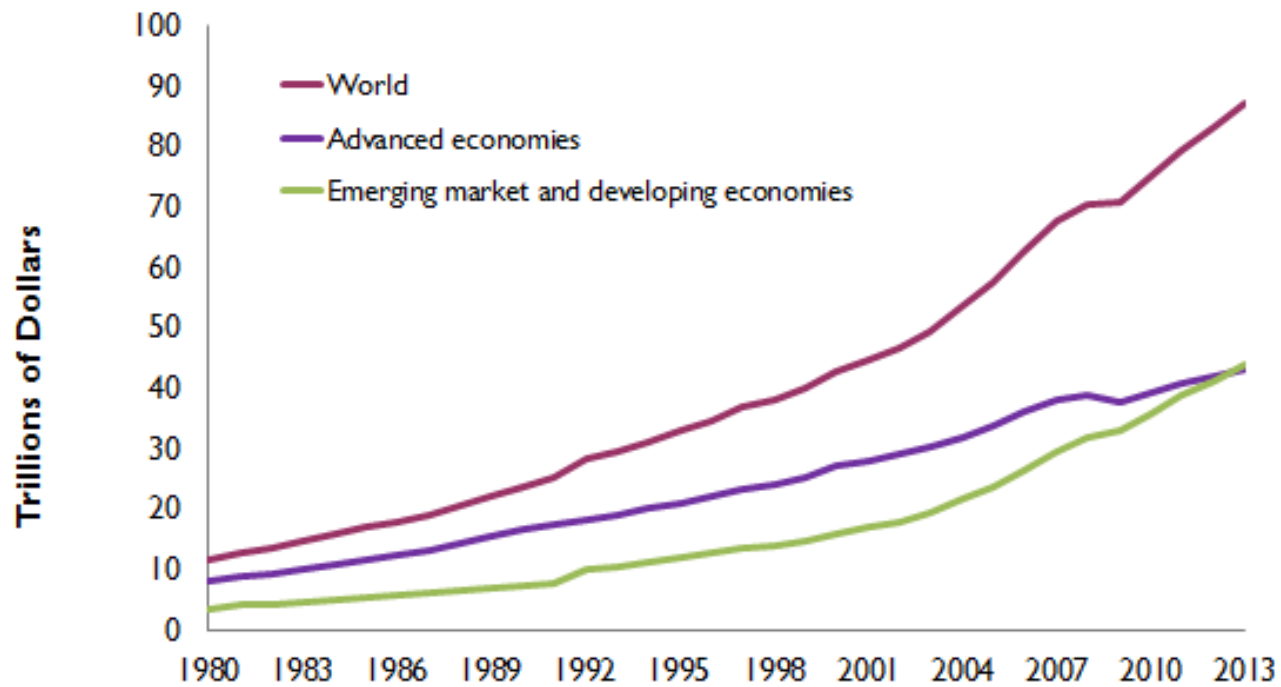
3. The rise of emerging markets





Source: Bloomberg

Figure 1. | **Global Gross Domestic Product, 1980 - 2013**



The BRICs

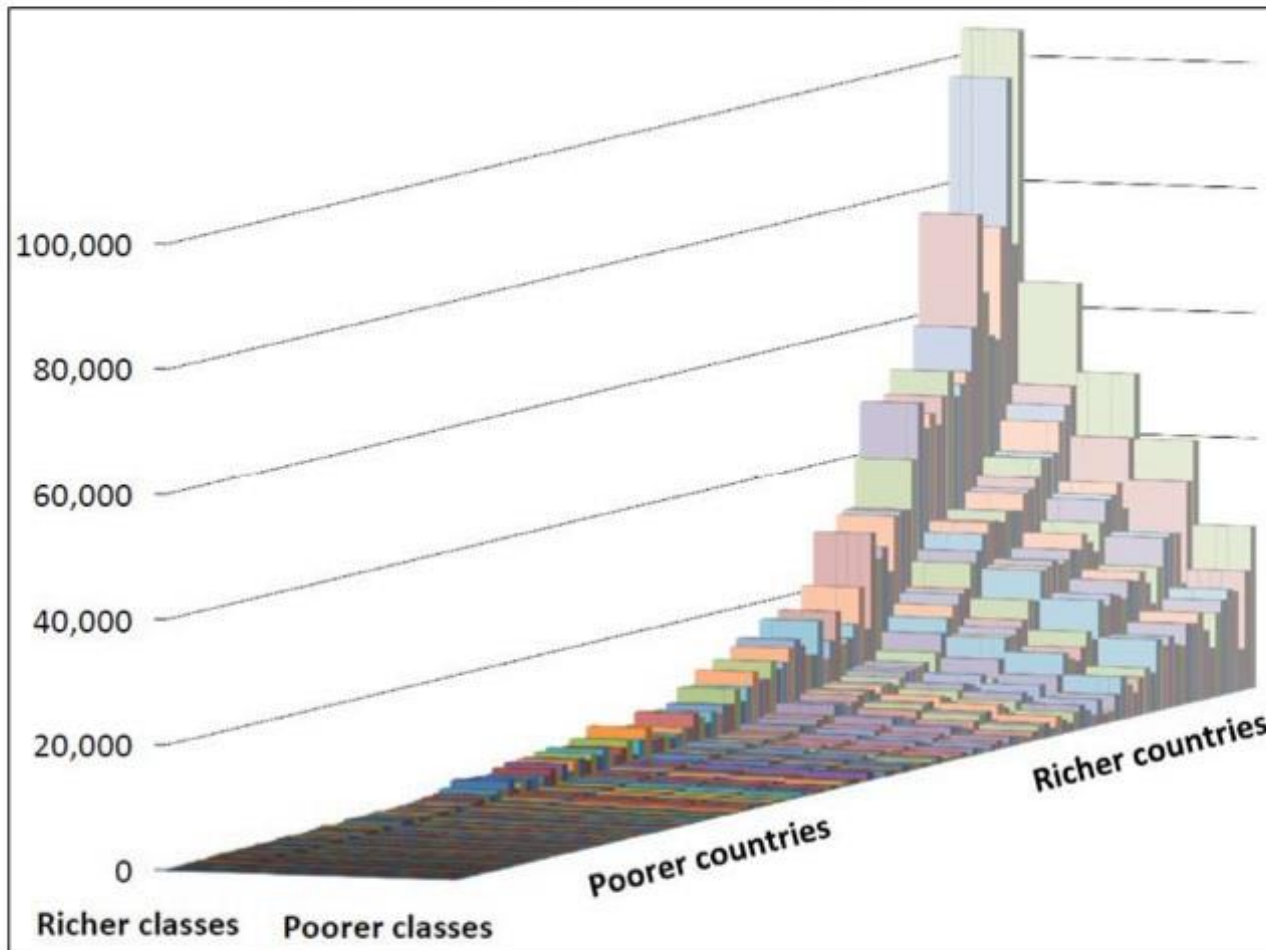


China and India: Simultaneous “Take-offs”

- China and India: 1/3 of world’s population
- High growth rates
- Likely to keep growing
- And shifting the technological balance of power
- India will vault over Germany in our lifetimes

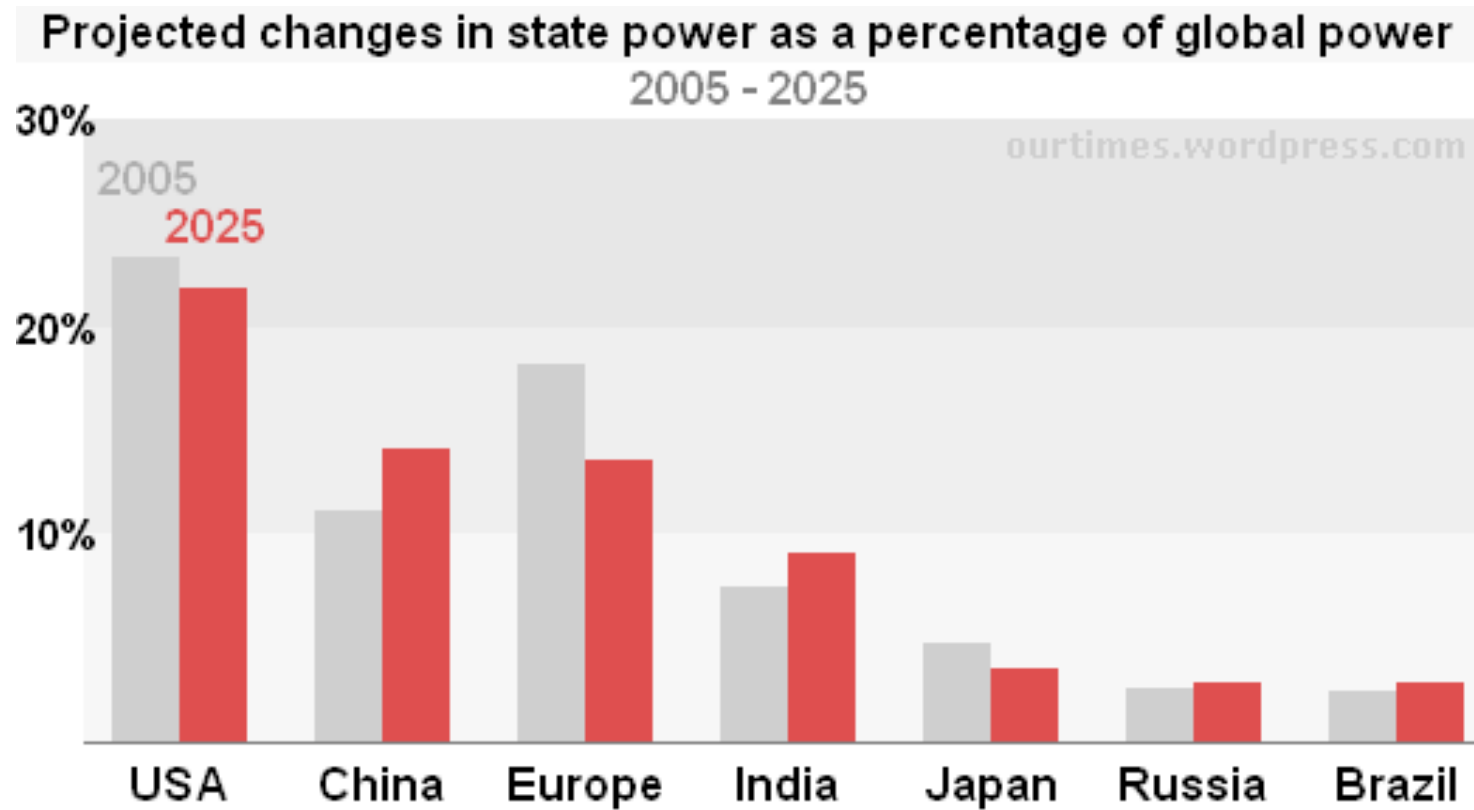
Political Liberal View: Global Inequality

Figure 2. A Visualization of Global Income Distribution, 2007
(or latest available) in constant 2000 U.S. dollars



Source: Adapted from Sutcliffe (2005) using World Bank (2011), UNU-WIDER (2008) and Eurostat (2011)

IV. The Economic Nationalist View: The rise of New Powers: Will the West lose control of the international economy??



Source: Global Trends 2025, U.S. National Intelligence Council, 2008

And other growing economies

- Australia
- Indonesia
- Iran
- Nigeria
- Saudi Arabia
- Singapore
- UAE
- Venezuela
- Turkey

A. Consequences for the global political economy

- Rising wealth means rising power
 - Rising powers include two nuclear states and....
 - Half the global population and.....
 - Oil producers
- They are proving to be resilient in economic crisis
 - They have amassed sovereign wealth funds
 - That buffer their economies
- They are already shaping world politics
 - Russia exerts influence in areas vital to U.S. security
 - India is carving out a sphere of influence
 - India and China are settling their differences
- China as an example

How are rising powers shaping world politics?

China as an example

- China has the world's largest foreign exchange reserves
- Uses it for access to raw materials
- Large foreign aid programs
 - Nigeria
 - Sudan
 - Indonesia
- Can military power be far behind?

How China sees the world



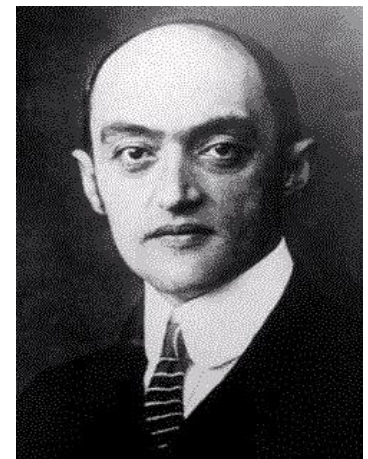
B. Consequences for international institutions

- Old arrangements are relics
 - In IMF and World Bank, Benelux has a larger quota than China
- China challenges the “Washington Consensus”
 - Why should it be the premise for economic development
 - And a condition for loans?

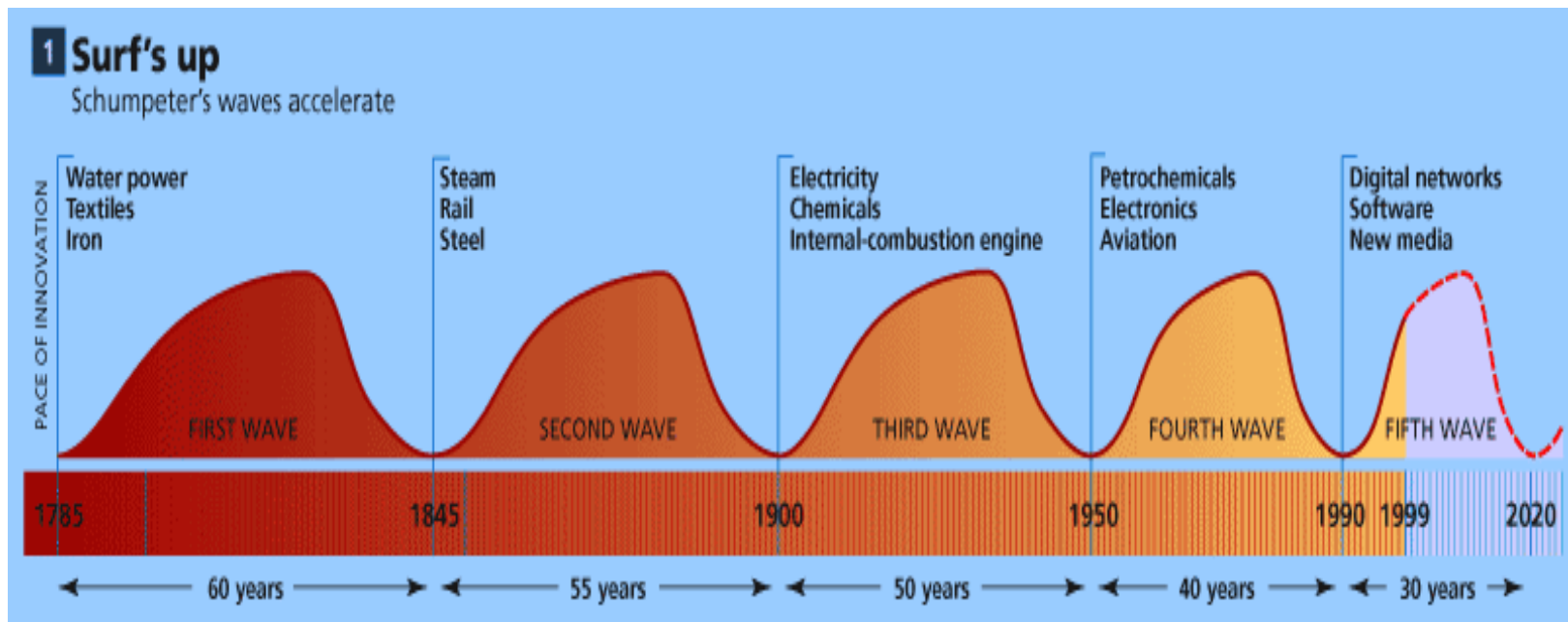
Economic development policies have not followed western liberal model

C. Theoretical Causes of shifting world power

- Rostow: Liberal Development Theory
- Vernon: Product Cycle Theory
- Gerschenkron: Late Development and State-led Liberalism (19th Century U.S. and Germany as rising powers)
- Creative Destruction.....
 - Joe Schumpeter *Capitalism, Socialism, and Democracy*
 - Creative Destruction: innovators destroy established businesses
 - Source of market power
 - Ensures against monopoly power
 - It hurts
 - He does not see this in economic nationalist terms



Creative destruction historically: Schumpeter's "waves" are increasingly faster



B. Effects of Changing World Power: Waltz says multiple centers of power provide stability

- Dominant powers expand too much
 - *“Imperial decay is . . . primarily a result of the misuse of power which follows inevitably from its concentration.”*
- And even if they don't, others worry that they are too powerful
 - Their preferences might not be the preferences of others
- But isn't America different?
- Is Shifting world power a good thing?

But is the economic nationalist argument weak in a globalized world?

- Global economy moving toward the “trough” of the business cycle.....
- Emerging markets are slowing
- BRIC growth is slowing more than growth in the rich countries (except India).....due to
 - Strength of the dollar
 - Global supply chain
 - Slowdown in exports of industrial commodities