

# International Political Economy Exam 2021

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Exam Question:

*“The pursuit of material self-interest is the primary reason that the international community struggles to tackle collective border-crossing problems.” Do you agree or disagree with this statement? Why or why not?*

Reference System: APA 7<sup>th</sup>

## Introduction

Is it the pursuit of material self-interest that stands in the way for the international community to tackle collective border-crossing problems? There are definitively arguments both for and against this statement. However, with a look at the historical context, it becomes evident that the international community has been better at addressing collective border-crossing problems than it is today, even in the presence of material self-interest. Therefore, this assignment will instead argue that *the international community struggles to tackle border-crossing problems due to the inability of prevalent international institutions to adapt to new and complex border-crossing problems.*

What are border-crossing problems? That is a subject of discussion, as exemplified in the European Union with the long-standing conflictual debates on the principle of subsidiarity (Danthine, 2017). This paper has identified four issues that it sees as generally accepted collective border-crossing problems, in which two are termed as more classical issue, while two others are more emerging issues. The two more classical issues are: *promoting peace over conflict* and *increasing human prosperity through economic growth* (UN, 2021). The newer and more emerging issues are: *providing financial stability in an interconnected world* and *acting on the climate crisis*. (UN, 2021; World Bank, 2020). The assignment is informed by the neoliberalist theoretical framework of liberal institutionalism and will further make use of the analytical tools of Historical Institutionalism (HI) supplemented by Sociological Institutionalism (SI). The paper will proceed by firstly outlining the theoretical framework and the analytical tools. Secondly, the paper will use the neoliberalist framework and account for the historical empirical evidence showing that the international community has previously been able to address the classical border-crossing problems. Thirdly, it will use the analytical tools to understand why the international community now struggles to solve border-crossing problems such as the emerging issues. Fourthly, competing arguments regarding central points in the paper will be discussed. Finally, the paper will conclude on its findings and reflect on the implications of those findings.

## Theoretical part

The paper is informed by the grand theory of liberalism, focusing mainly on liberal institutionalism in which Robert Keohane and Joseph Nye have been particularly influential. The market is central in liberal theory as most assumptions are derived from neoclassical thinkers such as Adam Smith and David Ricardo. Their theories argue that there are mutual benefits to be gained from actors engaging in a transaction, more specifically the assumptions of absolute gain. Therefore, through cooperation and coordinated behavior, rational self-interested actors can benefit from seeking cooperation with other actors (O'Brien & Williams, 2010). The theory of liberal institutionalism thus argues that international institutions are able to facilitate cooperation between actors by establishing focal points for coordination, enable interlinkage between countries and reduce transactions costs and uncertainty (Robert O. Keohane & Martin, 1995). From the liberal institutionalist perspective, actors in the global economy include states, international institutions and private actors such as transnational corporations (TNC). Liberal institutionalism accepts the assumption that the world system is characterized by an anarchical structure and the theory sees international institutions as a contributor to overcome problems occurring in an anarchic system such as the problem of collective action (R. O. Keohane, 1984). Liberalists, including the likes of Keohane and Nye, usually have a positive view on globalization because it reduces obstacles between countries and make the world more interconnected. However, nowadays most liberals would probably accept that globalization also brings along certain issues, but believe that strong and well-functioning international institutions have the capability to provide solutions (R. O. Keohane & Nye, 2000).

To understand why institutions in more recent years have not responded with the rationalist assumption suggested by liberalism, the paper makes use of the analytical tools of Historical Institutionalism (HI) combined with Sociological Institutionalism (SI). HI suggests that institutions are characterized by an inherent degree of stability and stickiness. As institutions create certainty and common understandings, the removal of an institutions is associated with new instability and unknown costs (Falleti et al., 2016; Hall & Taylor, 1996). Therefore, established institutions can constrain actors' behavior and become 'locked-in', even if the institutions grow inefficient and unable to keep up with a changing environment.

The historical context of the analyzed institution is important, along with timing and sequencing of events, as it tells much about the path dependency that is created through such an institution (Falleti et al., 2016). In the context of institutional change, the HI framework focuses on critical junctures as disrupting turning points that might lead to institutional change. Here, HI suggests that change can then both come in the form of gradual change and a punctuated equilibrium (Falleti et al., 2016; Hall & Taylor, 1996). Finally, Sociological Institutionalism (SI) will supplement HI, as it can inform us about the norms and ideas guiding institutions and their actions. Logic of appropriateness predicts that shared identities are created inside an institution that influence actors' behavior such that they act according to the norms and ideas that dominate the institution. SI can also help explain how these norms and ideas contribute to the path dependency that is created in an institution, according to the HI framework. (Fioretos, 2017; Hall & Taylor, 1996)

### **Historical empirical application**

One of the most notable successes since 1945 in the international community is the avoidance of a new great power war. Following the end of the Second World War, the western countries of the Allies created the Bretton Woods system that put in place three international financial institutions; the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF) and the World Bank (WB). The leaders wanted to avoid problems like those that led up to the Second World War such as financial turmoil, protectionist economic policies and tensions between European countries after WWI. With the new institutions in place, the idea was to establish interlinks between the member states and reduce uncertainty by providing information about the other actors' intentions. These steps would create trust between countries and make it more costly to go to war with each other (O'Brien & Williams, 2010). Furthermore, the international community created the peace-keeping institution of the United Nations (UN) in which 51 nations signed the first charter; the organization has since grown to encompass most countries in the world. The western Allies also established the military institutional alliance of NATO and the alliance now holds 30 members (NATO, 2020). The NATO alliance keeps its members from engaging in warfare with each other and protects smaller countries from outside invasion. The UN

institution has created more certainty between the selfish actors by enlarging the shadow of the future and facilitated room for cooperation rather than warfare among the nations of the world (Axelrod & Keohane, 1985; O'Brien & Williams, 2010). In this sense, both NATO and the UN are contributors to promoting peace in the world. Up until WWII, the single biggest threat to peace had been the constant fear of great power war. The Bretton Woods era of financial institutions, the UN and the NATO alliance have been important components in addressing this issue and the international community has now avoided conventional great power war in 76 years (1945-2021).

Another impressive achievement by the international community is the continual growth in wealth and prosperity for countries around the world. In 1971, Nixon closed the gold window effectively marking the end of the Bretton Woods system, and the world now entered a new neoliberal era with a changed role for the international institutions (Helleiner, 2017). The roles of international institutions now became to support a financial system of free markets, which entailed no restrictions on trade and capital flow (O'Brien & Williams, 2010). The GATT was reformed and with the WTO, a new global trade institution was created with regulatory power to settle disputes, making it easier for the institution to enforce the principles of reciprocity and nondiscrimination (Capling & Trommer, 2017). In accordance with Liberal institutionalism, these measures were taken to further reduce transaction costs between states and strengthen the principle of reciprocity in trading. The new free trade regime has significantly increased the trade between countries and the uprise in free trade has led to extraordinary examples of economic growth that has contributed to raising people out of extreme poverty many places in the world (Roser, 2021). Most significant is the economic growth in the East Asian region, where the economies of South Korea, Taiwan, Singapore, and others have seen strong economic growth rates, as they have been integrated into the global trade system. Even with challenges such as the financial crisis of 1997, rapid transformation of the economies has continued and extended to other parts of the Asian region (Seric & Tong, 2019). Taiwan's GDP per capita has increased 30-fold between 1950 and 2016, while the GDP per capita measured on a global basis has increased 4.4-fold (Roser, 2021). Although there are still issues relating to economic growth, the ability of the international community to collectively

address the issue of economic growth and prosperity has been indisputably successful compared to other eras of human history.

### **Contemporary empirical application**

From the 1990s and onward, the global economy has experienced increased financial instability, which the international community has been ineffective in addressing. The free trade regime meant a much deeper and complex interdependence in the world economy, meaning that countries' economies now were entangled at a level not previously seen (Helleiner, 2017). One event, which shocked the financial world, was the East Asian crisis of 1997, where the world for the first time understood the complexity of the new financial system. More crises followed and it culminated with the Global Financial Crisis of 2008 that showed just how fragile the system had become. The increased financial instability in the world system demanded a strengthening of the global financial architecture (Lall, 2012). Numerous international institutions have showed their inefficiency in addressing the border-crossing issue of financial instability, including the institutions belonging to the global regulatory regime. In the global regulatory regime, power is distributed among both public and private international institutions, including international financial sectors and international groupings of regulators such as the Basel Committee and global representatives of the banking and financial sector (Tsingou & Moschella, 2013). The complexity of the regulation of global finance means that the regime reassembles a small club-like structure with revolving doors and the risk of regulatory capture (Baker, 2010; Lall, 2012). The relatively small network of actors controlling the regulatory regime are dominated by neoliberal norms and ideas. As Tsingou and Moschella (2013) put it *"... policy communities responsible for financial regulation tend to share common mindsets and normative orientations about the proper scope, goals, and instruments of financial regulation and are also affected by 'cognitive locks' regarding appropriate courses of action"*. Put together, these factors contribute to a regime, where changes are slow and incremental, which is much contrary to a very dynamic and risky financial sector. The situation after the 2008 Financial Crisis could be seen as a punctuated equilibrium and a radical change was expected, but this did not happen. The negotiations of the Basel III in late 2008 exemplifies why. Following the 2008 Financial Crisis, financial regulation had

become an area of political salience and public attention and the G-20 forum became the body to push for capital adequacy reforms. A deadline was set to *end-2010* for the Basel Committee to formulate an international framework for reforms with demands of higher minimum capital requirements, an international-set leverage ratio, a more conservative liquidity ratio and a capital surcharge for important institutions (Lall, 2012). However, with the resumption of growth to advanced economies in 2010, two things happened: Public demand for change weakened, and rulemaking returned from the G-20 back to the Basel Committee, who regained control over the technical specifications of the regulations. With this, the club-like group of technical experts with personal links to the financial institutions could work out a set of reforms that fitted their neoliberal orientation (Lall, 2012). As Lall shows, the final proposals for Basel III were closely linked to the industry's recommendations and the radical reforms failed to appear (Lall, 2012; table 2). To conclude, the international regulatory regime is intertwined with the financial sector that they are to regulate. This fact leaves them unable to quickly and flexibly react to a global financial market that is complex and instable. In that sense, the international community has failed to address the financial instability that has emerged in the neoliberal era.

The Climate Crisis has been a topic for decades; however, the international community has been slow to react due to path dependency and neoliberal norms in the climate regime. In the 1970s, the international community began to put climate change and resource scarcity on the policy agenda with the publication of the Club of Rome's report "*The Limits to Growth*" and the first UN World Climate Conference. However, since then the steps that the international community has taken to address the climate issue have been inadequate, as countries continue to increase their green-house gas emissions rather than reduce them (R. O. Keohane & Victor, 2011). The evidence proves the ineffectiveness of the institutional arrangements, but the institutions however remain very persistent. The reason is that they are bound by path dependency and built on the neoliberal norms and ideas of deregulation and economic growth (van der Ven & Bernstein, 2017). The first UN Conference was held in Stockholm in 1972 and the initial framework draft questioned compatibility between the respect to planetary boundaries, unregulated industrial development and economic growth. However, some countries were loudly opposing to participate in a conference that would

put restrictions on economic growth. The loudest critics included developing countries pursuing an industrial development strategy (van der Ven & Bernstein, 2017). In light of these critics, the UN leadership appointed a new conference Secretary-General that changed the framework and brought back economic growth as a key contributor to sustainable development. In the same year of 1972, it was decided to create the United Nations Environmental Programme (UNEP). The UNEP was created as a subsidiary body with aims of coordination between the different UN environmental bodies rather than a stand-alone specialized agency with its own funding and regulatory power (van der Ven & Bernstein, 2017). Together with the decision to place UNEP in Kenya, far away from the UN headquarter, the creation of UNEP has created a path-dependent institutional legacy in the climate regime, exemplified by the lack of centralized authority and the non-binding goal-setting (R. O. Keohane & Victor, 2011; van der Ven & Bernstein, 2017). The neoliberal ideas and norms in the climate regime became institutionalized with the Rio Summit 1992, exemplified by the Rio Principle 12: *“States should cooperate to promote a supportive and open international economic system that would lead to economic growth and sustainable development in all countries, to better address the problems of environmental degradation”* (van der Ven & Bernstein, 2017). As accordance with SI, these norms broadly govern the logic of appropriateness in the climate regime and are exemplified by the marketization of tradable emission permits. In conclusion, the path-dependency seen in the institutional design and the neoliberal ideas of the climate regime means that it remains fragmented and ineffective in its actions to address the border-crossing problem of climate crisis. Although the neoliberal norms and institutions governing the global trade regime have been effective in facilitating cooperation and solutions to the classical border-crossing problems, they are unfit to solve the border-crossing problem of the climate crisis.

### **Discussion on competing arguments**

Another way to look at the research question could be through the lenses of the realist perspective. To understand how the international community has been able to avoid great power war for 76 years, realists would point to two theories. In an era with nuclear weapons, the Balance of Power theory would explain how the Soviet Union and the U.S.



would deter each other from interfering in the other country's sphere of influence. In that way, the capacity of each state to start a nuclear war, would provide stability to the world order through deterrence (Waltz, 1979). After the fall of the Soviet Union, realists would point to the Hegemonic Stability Theory (HST), as the world entered an era of U.S. hegemony. HST can explain both how the international community avoided great power war and how free trade and prosperity was promoted. Being a hegemon in the world system, no other country would want to challenge the U.S., as it had military and economic capacities that extended far beyond that of any other country in the world (Mearsheimer, 2001). In the case of free trade, being the hegemon of the system, the U.S. could pursue its political goal of free trade. The U.S. hegemon was able to coerce and threaten countries, who did not follow the same political goal and thereby, through an active foreign policy, control the direction in which the world moved (Mearsheimer, 2001). In that sense, the avoidance of conventional wars and the increase in economic prosperity happened because it suited the U.S. interests, and because the U.S. was unchallenged after the fall of the Soviet Union. Realists would argue that the reason for the international community's difficulties with addressing the issues of climate crisis and financial instability, is that the U.S. hegemony now is being threatened by other states, most notably China. In the new world order, instability is on the rise and there is no hegemon to coerce countries into cooperation (Mearsheimer, 2006). This means that countries are to a greater extent pursuing their narrow self-interest instead of seeking ways to cooperate and find solutions to bordercrossing problems. A typical example to point to could be how cooperation is hard to facilitate in the context of the climate crisis. The developing countries argue that they have the same right to pursue economic growth and achieve the higher standards of living that the developed countries have achieved. On the other side, developed countries do not want to take extensive measures to reduce CO<sub>2</sub>-emission, while the developing countries continue to pollute.

The arguments that the realist tradition is presenting are valid because they are arguments derived from a different way of perceiving the world than those of the liberal tradition. However, the reason that I find liberal arguments more persuasive is that they allow room for non-state actors, which I believe can be argued to be of strong relevance in the context of border-crossing problems. International institutions continue to remain relevant in

shaping the world, even when hit with shocks such as the breakdown of the Bretton Woods system, the 2008 Financial Crisis and recently the election of Donald Trump as president of the United States of America (Nye, 2020; RÆSON, 2019)

## **Conclusion**

This paper has sought to answer the question on why the international community struggles to solve border-crossing problems. The research question presented a statement that claimed that the difficulties of addressing border-crossing problems were due to material self-interest. However, this paper has instead argued that it is the result of the inability of prevalent international institutions to address new and more complex border-crossing problems. Through the liberal institutionalist framework, the paper shows how the international community has previously been able to address collective border-crossing issues by establishing strong international institutions. The international institutions have helped the international community address the issue of great power war and how to increase human prosperity through economic growth. To understand the contemporary difficulties of these international institutions to address emerging border-crossing issues such as climate change and financial instability, the paper has used the analytical tools of HI and SI. These tools are used in order to gain an understanding of why the rationalist assumption, which liberal institutionalism presumes, fails to apply to these contemporary issues. The paper finally discusses how a competing realist approach can be used to understand the issue. Does the analysis in the paper then show the failure of international institutions in contemporary times and mark a new era of isolated and selfish countries? I think not and I believe that those who are disappointed that international institutions have not already undertaken the reforms to adequately deal with contemporary issues must look at historical evidence and acknowledge that creating strong and capable institutions has always been a time-consuming, contested, and politically contingent process (Gabel, 2011). I believe that international institutions have a continued relevance in enabling the international community to act collectively towards common issues and that much effort and many resources should be devoted in the academic field to better understand how (R. O. Keohane, 2020).

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