Introduction to International Relations

Chapter Notes: Chapter 9
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Chapter Nine:

How Globalization Actually Works

Chapter Overview

Chapter 9 exposes students to the nuts and bolts of globalization, examining the specific features and mechanisms that have served to "shrink" the world. This chapter examines the seven government policies that affect a country's relationship to the world economy—policies of macroeconomics, microeconomics, governance, exchange rates, trade, investment, and population flow—detailing purposes and theories of each. This chapter also examines the international institutions that have facilitated globalization, such as the IMF, the World Bank, and the WTO, providing students with short history and explanation of these organizations.

Globalization: Realism

- Emphasizes mercantilist policies
- Indifferent to other countries' internal policies
- Favor inward-first approach: Countries first fix internal problems, then push for compatible policies abroad

Globalization: Liberal

- Emphasize common goals and absolute benefits from globalization
- Prefer outward-first approach: Countries first agree on common international policies, then change individual policies to conform to these agreements.

Globalization: Identity

- Focuses on the social discourse that creates policy goals
- Considers substantive objectives or ideas behind economic policies more important than their coordination or relative material consequences

Types of economic policies

- Exchange rate policy—has the greatest immediate impact on the prices of a country's goods and assets.
- Trade policy—affects the prices of goods and services when they cross the border by taxing or subsidizing the price or restricting the quantity.
- Policies toward foreign direct investment and portfolio capital—while capital flows to most countries are liberalized today, some controls persist.
- Policies toward the flow of people—deals with the movement of people across national boundaries, a relatively new feature of globalization.
- Macroeconomic policies—deals with domestic fiscal and monetary policies.
- Microeconomic policies—the principal ones are regulations, subsidies, price controls, antitrust policies, and labor laws.
- Domestic governance—deals with the domestic institutions that govern the local economy.

International Economic Institutions

- International Monetary Fund—has 184 countries and seeks to encourage sound domestic economic policies in order to support global growth and economic stability. The IMF often does this by lending money on the basis of conditionality.
- World Bank—has 184 member countries and tries to promote development and alleviate poverty in the world.
- World Trade Organization—succeeded the GATT, has 149 countries, and creates and settles international trade policy.

Thought Questions

1. What are some drawbacks to taking an outward-first approach to international economics?
2. What are the strengths and weaknesses of the realist approach to international economics and globalization?
3. Why do you think that domestic governance is generally so important to a country's economic standing?
4. In your opinion, is the IMF's policy of conditionality justified? Why or why not?
5. Why are realist perspectives often distrustful of international institutions? What are the potential consequences of this line of thinking?