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How Aspects of the International Economic System Impede or Enable Global Integration

There are many faces of global integration, both positive and negative, and almost as many definitions. Yet, in order to assess how aspects of the international system impede or enable it, we must define it. I characterize global integration as a social, economic, cultural and political "process of increasing interconnectedness" (Smith, Baylis, & Owens 17) expressed historically and empowered conceptually by a "dense network of international flows of goods, services, capital, information, ideas and people" (Spero & Hart 453). Regimes, institutions, states, regions and transnational issues have specific effects upon the international economic system.

The purpose of this paper will be to detail the positive and negative effects of these important system variables. In doing so, I will make the case that global integration is increasing, irreversible in nature, and leading to a higher level of instability requiring enhanced international cooperation best expressed in an increased advisory role for international regimes and institutions as opposed to an increased authoritative and governance role.

The views and opinions expressed in this paper are completely my own and do not represent the views or opinions of the Department of Defense (DoD), the Department of the Navy (DON) or any of the Armed Forces.

Section One – Regimes

The World Trade Organization (WTO) is perhaps the most important regime or set of "rules, norms, procedures, and institutions"(Spero & Hart 1), which exists to "supervise and liberalize

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international trade" (Spero and Hart, 474). Pascal Lamy, the WTO Director-General summarizes some of the ways the WTO enables trade on its website as follows:

> Provides "a forum for negotiating agreements aimed at reducing obstacles to international trade," sets forth "a legal and institutional framework for the implementation and monitoring of these agreements," seeks "agreement on rules governing … anti-dumping, subsidies, product standards, etc.," and ensures "transparency of regional and bilateral trade agreements" while providing for dispute settlement among members and "assisting the process of accession of some 30 countries who are not yet members," ("About").

Thus, the WTO facilitates Global Integration (GI) by getting more nations onto the field of play, dissolving borders, reducing poverty, encouraging the export and adaptation of technology, and helping developing nations attract foreign investment. Through its multilateral trading negotiations such as the Tokyo, Uruguay and Doha Rounds, it brings nations together to reduce barriers to global trade, thus enabling GI further. But the Doha Round has stalled, perhaps in part because of the WTO's own policies. Debi Barker and Jerry Mander argue that the WTO undermines GI through its *subsidiary regimes* of Trade Related Investment Measures (TRIMs) and Trade Related Intellectual Property Rights (TRIPs) (251-255). The WTO is also unable to obtain agreement on agricultural issues on non-agricultural market access.

Regional trading regimes such as the North American Free Trade Agreement (NAFTA), the Association of South-East Asian Nations (ASEAN), and the European Free Trade Association (EFTA) serve as mini-WTOs in the way they liberalize trade at the regional level and have similar goals. One could argue that with more trade happening regionally, people will tend to integrate regionally as opposed to globally, but regions trade with regions, thus the network of GI continues to grow albeit at a slower pace and buffered by power politics.

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The International Monetary Fund (IMF), World Bank (WB) and other global financial institutions may be thought of collectively as an international financial regime in the way that they help to facilitate the flow of capital and credit, monitor and influence exchange rates, coordinate central banking policies, and provide for liquidity and confidence in the system. The regime in its present form may impede GI by allowing numerous financial crises in the past 30 years including Mexico, Asia, Russia, Argentina, and the U.S., thus hurting confidence and trust in the system (Spero & Hart 55-60). The 2020 Project notes that "Asian finance ministers have considered establishing an Asian monetary fund," holding more currency in yen and renminbi than dollars, and making more interest rate decisions (National Intelligence Council). Such decisions may steer integration in a regional rather than global direction.

Section Two – Institutions

The World Bank (WB) and IMF are the two primary institutions that facilitate GI. Sovereign Wealth Funds (SWFs) and Multi-National Corporations (MNCs) have also played a role as well. The WB provides commercial loans for infrastructure and development lending, mainly to developing nations or Middle Income Countries (MICs) ("Empty Nest"). It also provides technical assistance through its staff of 10,000 with the core goals of reducing poverty and increasing economic growth (Mallaby, 2005). "The institution (WB) gives out around $20 billion in loans and grants each year, a volume roughly 25 percent greater than total U.S. aid … and seven times the combined output of all the UN agencies" (Mallaby, 2005). The IMF "helps countries with payment deficits by advancing credits to them" and "advises countries on policies affecting the monetary system" (Spero & Hart 458).

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Critics like Jeffrey Sachs and Kenneth Rogoff point out that these institutions have "structural flaws" and "accountability" issues ("Sisters"), are selective in who they help (Mexico but not Ecuador or Haiti), have voting quotas that unfairly favor the U.S. and Europe, have limited resources, and do not adequately address extreme poverty ("Running the Fund"). One could also make the argument that over the years they've done much better at crisis management than crisis prevention. SWFs facilitate the flows of Foreign Direct Investment (FDI) by providing a vehicle to hold large supplies of foreign currency reserves but may present security and currency destabilization risks (Mattoo & Subramanian, 2009).

MNCs help to facilitate FDI and global trade, create external economies and new jobs, and promote research and development abroad. However, as Spero and Hart illustrate, they may also "reduce competition and threaten existing domestic industries" (149), "contribute to trade deficits" (149), and cause good jobs to be exported out of developed nations' economies. With $1.2 trillion in FDI outflows and inflows, revenues over $80B, and over 78,000 MNCs in 2006 (Spero & Hart 129-135), the net result seems to be that MNCs are enablers of GI.

Section Three – States and Regions

States may impede or enable GI based upon their fiscal policies and their core assumptions and political ideology regarding the International Political Economy (IPE). Martin Wolf points out that state governments who succeed in the global economy "fully exploit the opportunities," "maintain macroeconomic stability," "sustain high rates of savings and investment," "let markets allocate resources," and have "committed, credible and capable governments" ("Useful"). States that do *not* exploit their comparative advantage, have macroeconomic instability, run huge trade and budget deficits, intervene in ways that disrupt the natural market

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process and have incompetent governments may not be able to integrate fully. Moreover, states that jump into GI took quickly without developing the socio-economic infrastructure to handle it may recede from GI and even go bankrupt. China and India are great success stories of GI. The Ivory Coast is not. Jeffry Frieden points out that even the U.S. must eventually deal with its fiscal and trade deficits and may need to retreat from GI to some extent to do so (Frieden 26). That's slow down, not stop completely. The dense network will continue to grow.

If a nation's core assumptions about IPE are mercantilist, they may embrace GI in a limited way. If they're Marxist, they may try and avoid it, but not even China and the Soviet Union could do that forever. It is within the nations that adopt liberal economic perspectives where we find the most welcoming and empowering atmosphere for fully embracing GI. While China and Russia have adopted some free market principles in select areas, it is in the flow of social and cultural ideas and information where there is still a great degree of resistance. Finally, regional triadization with the Americas, Europe and Asia-Pacific emerging as core alliances of major trading partners is enabling greater levels of *intra*-regional trade, but also contributes to less *inter*-regional and global trade while feeding competitive power posturing.

Section Four – Transnational Issues

Moises Naim points to five key transnational issues, or "wars of globalization,' that may temporarily enable GI. These five wars include "illegal trade in drugs, arms, intellectual property, people, and money" (Naim 29). I say that they *temporarily enable* GI because they do in fact increase the flow of goods and enhance global interconnectedness by exploiting the collateral benefits of GI to include better technology, communications and transportation in a malevolent way. However, they may eventually *permanently impede* GI by extracting too many

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resources to fight the wars or resulting in a nuclear exchange between a rogue nation and the developed world that shuts down markets, economies and global trust.

Other transnational issues that may impede GI include a lack of technology, lack of infrastructure, exploding populations, restricted access to healthcare, lack of clean water and healthy sanitation, pandemic diseases like AIDS or bird flu and poor educational resources. As nations seek to cooperate with one another to find solutions to such problems, these issues may actually enable GI. Amy Chua encourages us not to "overlook the ethnic dimension of market disparities" ("World") and how ethnic hatred may disrupt GI. John Ralston Saul reminds us that globalism itself carries the seeds of its own destruction by requiring no accountability (35), allowing poor ethics (37) and weakening democracy and the stability of nation-states (37).

Conclusion

Regimes, institutions, states, regions and transnational issues all facilitate the growth of GI, some faster than others. They increase global interconnectedness and empower the dense network of international flows. Within each category, however, are slight defects that slow the process of GI down, but not stop it completely. Whether GI looks more like a supersonic jet or a plodding camel in the near future depends upon how the international economic system responds to those defects. Empowering a global governmental authority to resolve the defects is probably untenable at the moment. The IMF and WB are wrong as much as they are right in assessing international financial conditions, and "it is hard to see how they would be more effective simply by granting the institutions more authority" (Schaefer, 2008). Enhanced international cooperation that is consultative, advisory and transparent will allow states, regions and institutions to engage GI at a pace they are comfortable with and counter the defects.

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