Academic foundations of global economic governance – an assessment

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Abstract – The concept of global economic governance can be used to describing the prevailing global order and the most appropriate way of redefining the actual economic system. This concept is interesting not only because of the growing literature and interest in finding a proper definition, but more in challenging the limits of traditional international relations theories to explain a world where the shape and the role of individual states is changing. Even if particular theoretical paradigms try to emphasize specific characteristics of global governance, no one has been able to capture the complexity of this subject. Thus, the conceptualization of global economic governance requires a combination of particular aspects of different theories, which are deficient independently speaking, but together they can explain power, order, norms and change in world order. Objectives: This paper provides a critical analysis of the theoretical literature on global governance, especially in what regards liberalism, realism and constructivism, considered to be major theories in defining international relations concepts. Each paradigm is analyzed according to the key themes in order to define the main aspects of global governance. Prior Work: It has been tried to emphasizing the concepts already developed by known researchers in the field. Approach: The approach is a more theoretic one done in a comparative manner with emphasis on results and future research. The critical method approach is done with qualitative results. Results: The key results are related to theoretical foundations of defining the paradigm of global governance, as well as presenting a comparative approach of the most important features. Implications: The implications are varied in terms of studying the concepts and addresses researchers in the field, but also lecturers and students. Value: The main added value is the critical and subjective analysis of international relations’ economic theories in terms of defining the paradigm of global economic governance.

Keywords – global governance, paradigm, liberalism, realism, constructivism

I. INTRODUCTION

The underlying theories of international relations comprise a variety of key ideas about the nature and the role of economic agents, states’ views, sovereignty and relations between states and other economic agents, as well as general conceptions about international system. In many ways, these theories can be used to explain the new paradigm of global economic governance and its effects.

Through undertaking a comprehensive review of the theoretical literature on global governance, two main theories are addressed as basis of the architecture of global economic governance, the role of states in international relations, the legitimacy of global governance and the distribution of power.

This paper presents two major theories – liberalism and realism – the ones with a direct touch on global governance and international cooperation. There are also presented some median theories that derive from the major ones and are close related to the link of international organizations and the essence of the global governance: functionalism, international regimes and collective goods, deriving from liberalism, rational choice, hegemonic stability and international agreements, deriving from realism.

II. LIBERAL THEORY IN TERMS OF GLOBAL ECONOMIC GOVERNANCE

Classical liberal theory argues that human action is malleable and perfectible through institutions. Injustice, aggression, wars are products of social institutions and arise from the misunderstandings between leaders. The moral principles, the states’ choices, power relations and transactions shape the interests and the policies adopted by the states.

International cooperation is possible and is developed over time due to important reasons: the international system is viewed as a complex net of relations and interactions between different actors rather than a structure of relations based on the distribution of power and a rigid concept of sovereignty [14].

If state’s power is limited domestically by the democratic accountability, the need of meeting the requirements of the market economy and the state of law to its citizens, these beliefs have to be implemented internationally, resulting in stable relationships among states. This power derives from the sale of common interests for a common goal.

Bull promoted the concept that the system is a society where actors adhere to common standards, common rules and recognize common interests [9]. Power is very important, but exercised in the framework of rules and institutions, which makes the international cooperation possible.

International organizations are forums of discussion and cooperation, aiming to solve common problems. International law is one of the major tools used in shaping and maintaining order in the global system, even if it is a more horizontal than hierarchical authority [2]. For liberals, international
organizations can be used as instruments of foreign policy or as a constraint to the states’ behavior.

| TABLE I |
|------------------|-----------------------------------------------|
| **LIBERALIST THEORY** | **Neoliberalism** |
| *world is anarchic* | Labor division of work |
| *cooperation is easier* | Interdependent international system |
| *Will both of us gain?* | Loosing some national autonomy |
| *focus on the overall benefits of a transaction* | Complex relationship between national and international politics |
| *the goal of states is economic welfare* | International organizations and institutions |
| *institutions matter* | Rational calculus |
| *states have more to gain from cooperating than from defecting* | |
| *emphasize on intentions, information, interests* | |
| *measurement of power through state economies* | |
| *cooperation, soft power, peace* | |
| *international organizations are the primary actors in international affairs* | |
| *prisoner’s dilemma* | |
| *states are cooperative and ethically sufficient* | |
| *human concern for others’ welfare makes progress possible* | |
| *international politics ≠ a war against all* | |
| *the main objective of states is welfare* | |
| *economics is more relevant to international security* | |
| *security for all people* | |
| *reorganize international society to eliminate war* | |

| **Functionalism** |
|------------------|-----------------------------------------------|
| Collective conscience | Value consensus |
| Social order | Power is used to achieve collective goals |
| Institutions have a role in promoting stability and integration | Solidarity and stability |

| **International Regimes** |
|------------------|-----------------------------------------------|
| Self-interested rational agents | Rational calculus |
| Absolute gains | Cooperation enhanced by a leader country |
| Institutions assist cooperation | Reputation and trust |

| **Collective Goods** |
|------------------|-----------------------------------------------|
| Individual decision | Selective incentives |
| Strategic interactions | Rational actions |

A. Neoliberalism

In the 1970’s, liberalism has taken a new turn after the increasing interdependencies and awareness at the global level due to the global vulnerabilities appeared after the onset of the Cold War. Robert Keohane and Joseph Nye emphasized that the international organizations are a response to the complex conditions of interdependencies.

This refers to the reciprocity in actions among countries or actors from different countries [29]. They argue that countries are rational actors in a world where anarchy prevails. At that time, states were engaged in cooperation in order to follow their interests, becoming a common practice. They can solve common problems through international organizations as the main instrument of power and interest [3]. Robert Keohane and Robert Axelrod developed the “prisoner’s dilemma” theory to illustrate how cooperation is only pursuing a state interest [26]. They demonstrated that the use of such a strategy leads to cooperation and can be mutually beneficial on long term. Theory shows that states tend to adopt interdependent policies even they are independent economic actors [15]. Thus, interdependence affects world politics and states, but government actions affect the pattern of interdependence.

Keohane underlined the fact that cooperation between states leads to creating supranational institutions, despite the anarchic international environment, which oversees the states’ commitments, moderates individual actions, provides a framework for dialogue and dispute resolutions mechanisms [31]. Interdependencies reduce interest conflicts and only cooperation leads to common answers to global problems.

The critics of liberalism, [6] [22] and [33], say that the theory adopts a naïve and utopian position of the concept of human nature and international cooperation. The liberals tend to exaggerate the role of international institutions, the concept of globalization and the limited capacity of states.

B. Functionalism

This theory is rooted in the belief that governmental agreements arise from the basic and functional needs of individuals and states. Functionalists claim economic and social cooperation as a precondition for political cooperation and to eliminate conflicts arising due to ignorance, poverty, hunger and disease [7].

Not all the functionalists share this view, but they agree that political rivalries can be overcome by cooperation, common values and common approaches to common problems. Some parts of functionalist theory were tested to explain the phenomenon of the development of international organizations and the result was that most of them are functional [10].

But the theory fails to answer one key question: How can wars be avoided if they are not caused only by economic deprivation, ignorance, hunger and diseases? Another weakness of the theory is the assumption that economic and social cooperation is to be transferred at political level [24]. But despite all its criticism, functionalism is a useful approach for understanding the development of international organizations, important actors in defining the global governance concept.

C. International Regimes

A second liberalist theory arises from the study of international law and represents an important advance in understanding the international cooperation. In the 1970’s, law researchers began to use the term “international regime” and recognized that law is not only formal prohibitions, but also informal norms and rules of conduct, which in time can be encoded and then institutionalized [31]. By addressing these rules and regulations, governance can be defined in several
areas of interest, especially economic ones. According to commonly used definitions, “rules include principles, norms and decision-making procedures by which actors’ expectations converge in a common interest area” [36].

Unlike functionalism, which relies almost entirely on traditional liberal theory, the theory of international regimes is influenced by realism. Some economists focus on the role of power relations between states in shaping international system, others use constructivist approaches of social relations for the same reason [1].

An international regime is based on generalized principles, but there are areas where arrangements cannot develop procedures, and in such cases, the absence of interdependence may explain the lack of development of a system. Regimes constrain states only on short term and in a very limited sense, easing burdens and strengthening national governments in facing the problem of collective goods [14]. They are an intermediate factor between the structure of power of an international system and the political and economic negotiations that take place within it.

Despite its ambiguities, international regime theory identifies the link between international organizations and global economic governance by establishing the fact that governance and order are incorporated into rules and they need more than a simple organizational structure [27].

The theory is extremely criticized for not giving sufficient weight to the distribution of power in international politics [17]. The weaknesses of international organizations mislead sometimes the observers, making them believe that international regimes are unimportant.

D. Collective Goods

This is another relate theory in explaining the global economic governance concept and international cooperation. Collective goods include universal norms, principles and knowledge as “global common goods” or peace, health, financial stability, environmental sustainability as “global conditions” [13].

The activity of using collective goods involves interdependent choices. The decisions taken by a specific country can affect the rest of the countries, sometimes negatively. A central spot of this theory goes around the question about who produces public goods.

Without specific mechanism of collective action, there is a risk that these goods could not be delivered properly. And when they already exist and can be used by everyone, the problem of gratuity appears. Collective goods are easily supplied for smaller groups than larger ones. Free or faulty goods are difficult to hide, but prone to penalties when it comes to smaller groups [8]. The theory suggests that those who face the problem of collective action may seek to restructure the preferences of economic actors through awards and penalties [25].

Theory can be used to explain differences between efforts in finding solutions to shared global issues, like natural resources or climate change, over which no state can act independently.

III. REALIST THEORY IN TERMS OF GLOBAL ECONOMIC GOVERNANCE

This theory is based on the assumption that individuals act rationally to protect their interests. Realists are pessimistic about human nature and the theory developed as a reaction to the liberal tradition, called “idealism” [14]. Morgenthau emphasized the principles of political realism [12]: politics is governed by objective laws rooted in human nature; main indicator is the concept of interest; the concept of interest requires intellectual discipline; the structure of international relations tends to be at odd with the realities of international politics; moral aspirations of a nation do not coincide with the moral laws that govern the universe.

International system is based on a community of states, entities that act in order to promote their own interest, defined in general by maximizing power and security compared to other states, but not always using military power. States are the most important units and their relevant capacities are considered to be their source of power [30]. Power has always been an elusive concept for the statesmen and analysts of international politics. It can be understood in terms of control over results, but also as a struggle for power [12].

States coexist in an anarchic system, without a hierarchy in terms of authority, so they must rely on themselves when dealing with security issues [34]. Because each state is concerned about getting more power from other states, competition is fierce, and the basis for cooperation is unstable. Governments try to increase their benefits from transactions, even when both sides benefit from their mutual relations.

The structure of international relations is crucial for the politics of power and changes in international environment are caused by changing global power relations [23]. States will always address economic interdependence in terms of power and its impact on welfare.

The absence of an international authority leads to fewer rules that restrict the states’ actions. Realists do not say that the cooperative relationship between states is impossible, but they recognize that there is little incentive for engaging in international agreements. International organizations are viewed as a secondary phenomenon since there is no restrictive power [19]. For most realists, balancing and deterring power proved to be more effective than the existence of international institutions.

Criticism on realism [28] is based on the limited analysis of this theory on the role of non-state actors and an insignificant attention to the business processes. The theory is based on the misconception of human nature and it is inconsistent in terms of global politics.
A. Neorealism

This theory is the most powerful one among the all other variants and it belongs to Kenneth Waltz [18]. He said that the organizing principle of states is anarchy, and is not chaos that involves the absence of structure and rules, but rather the lack of a central government that apply the rules [14].

The anarchic nature of international politics differentiates this field of the one of domestic policies, characterized by hierarchy. The structure of the international system affects the whole system and also the regime that governs political negotiations and decision-making processes [12].

Power is not an attribute of the units, but a feature at the system level. Strong economic and military states dominate most of the international organizations and never in history the world were dominated by more than eight powerful states [18].

International order and cooperation have always been a matter of dispute between realism and neorealism, with important implications for defining global governance [11]. The way how the distribution of power shapes the activities of states and the international political order shows that order takes less and less international institutions to the system structure. Unlike powerful states, whose military power is often too expensive to be used, less developed and poor countries use international organizations, more affordable and available, to promote their interests and needs [12].

Neorealism admits the possibility of structural change in a certain sense, namely that of the transition from one power distribution to another one [3]. But structural change, which critics referred to, is less physical and more social.

A change that is not structural cannot shape the distribution of power. Quantifiable power resources are automatically converted into actual power of the results: the changes occur through a process of political negotiation, and predictions based on the distribution of power resources can be refuted by skills, commitment and consistency [12].

Unlike the relative gains from cooperation, as neorealist say, neoliberals stress that actors with shared interests try to maximize their absolute gains. But relative gains are more important when it comes not to security and economic problems [5], making cooperation difficult to achieve, maintain and dependent on the states’ power. Since anarchy fuels the lack of security, states become increasingly dependent on each other and the most effective counterweight to state power is the power of other states.

The fervent critics [23] highlight the lack of clarity about cooperation and conflict in the international system. Theory is unable to explain or offer predictions about the balance of power and it is too focused on states. It is based on a series of implausible assumptions about unity and rationality in states’ actions.

B. Rational Choice

This theory has gained many adherents within economic and political sciences area. It assumes that preferences are derived from the states’ objectives and material condition. In the view that markets are the most efficient mechanism that human nature uses, the theorists use microeconomics to explain states’ choices.

They study imperfect market, asymmetric information, transactions costs and the role played by institutions. Ideologies, religion or other cultural factors do not really matter for states in taking a specific action. International relations are best explained by states’ choices, and states operate as rational actors in pursuing their interests within the international system [14].

The essence of this theory is the assumption that states’ actions are based on rational calculus of utility subjectivity [24]. Theorists are interested in how states use international institutions to achieve their goals and how states create these institutions to reflect their own goals.

States find it rational to be part of international agreements even if it is not in their own interest, just because their fear they will be left out [19]. They conclude that participating in such agreements is not an option and, therefore, they might be forced to conform to already established rules.
C. Hegemonic Stability and Agreements between Great Powers

This theory has roots in the realist tradition, but also in neoliberalism and collective goods. It was developed in the 1970’s and 1980’s to answer the question about creating a free world, and the answer was that a free world is created by rules set by powerful states, especially a hegemonic power that uses its influence on several levels [35].

The theory argues that hegemony provides a similar order as a central government in the international system: it reduces anarchy, stops bullying, promoting free trade and offering a hard currency [14]. The hegemonic leader will be constantly tempted to use its position for the sake of specific gains.

Hegemonic stability is based on the premise that an open economy is a collective good [4] and cannot be supported without the activities of dominant power. If such a strong economy is devoted to a free economy based on nondiscrimination, it can use its dominant position to ensure the supply of collective goods: a liberal trading system and a stable monetary system.

Thus, it has to ensure efficient rules, standards and procedures, encourage other countries to participate at the costs of the system, eliminate tariff and nontariff barriers in mutual trade, manage the monetary system, use its own momentum as a growth engine to the rest of the system, ensure the transfer of technology and knowledge, respond to crises. Only the hegemon may decide on a behavior that serves the perpetuation of its power [16].

Hegemony was used as a term in showing how powerful states impose their authority, being considered an organic dimension of powerful behaviors in international system. Hegemonic power can be performed in three ways [32]: positive (create a transnational order by rules), negative (neglecting the rules when they don’t serve its own interest), structural (obtain some additional benefits by simply staying in the core of the system created by itself).

These views have significantly contributed to understanding the options of the states and the role of power, especially at the birth of hegemonic international system. Although realists had a lot to say about the elements of global governance, recent research in this area has led to in-depth analysis of the role of hegemonic power and how it affects global processes.

The agreements between great powers are made in order to increase the power of their members regarding the relations to other states. Economic negotiations are influenced by the unequal distribution of effective demand and by the rules and institutions which reflect primary frameworks of power.

By joining power capacities, they can exert greater influence in international negotiations. Most of the agreements are formed as a response to this perceived threat [14]. But the agreements can change rapidly depending on interests, which can lead to major changes on power relations.

IV. CONSTRUCTIVIST THEORY IN TERMS OF GLOBAL ECONOMIC GOVERNANCE

One of the most recent theories, constructivism is becoming increasingly important in the study of global economic governance and its elements, especially the role of international organizations and institutions, rooted in social and sociological theories. Almost all constructivists say that the work of individuals, states and other economic actors is based on beliefs and rules defined by the customary practices of society and culture.

The economic actors relate with each other and the way of interpreting behaviors is constantly changing the concept of norm. Neorealist adepts see the structure of international system as a distribution of material capabilities because it addresses the topics through material lens; neoliberal adepts see it as a combination of capabilities and institutions that have added a national superstructure to the material basis they already have; constructivist adepts see it as a distribution of ideas because of a realistic ontology [3]. States may treasure status or reputation, which are social concepts rather than material concepts.

At the heart of constructivist research lies the approach of identity and interests and how can they change ideas, values, norms and could lead to the conclusion that individuals are able to change the world when they change ideas and their interests are socially formed [24]. While realists claim that the identity and interests are given, constructivists say these are socially constructed and influenced by social interactions.

This theory places great importance to formal institutions and organizations. In the process of studying international organizations, constructivists seek to discover their social content, dominant rules in the activity and interests of states, as well as how these interests may affect the economic actors. International organizations can serve as promoters of social construction and can socialize states in adopting rules, values and political objectives [21].

For academics, international organizations have real power: they build a social world in which cooperation and choice are of particular importance [20] and helps in interests defining that shape states and other actors towards liberalism and liberal global order.

When institutional norms become customary rules, the behavior and interests of states might suffer changes. Hence the implications on international relations and on understanding the attitude change towards poverty, colonialism, slavery, etc.
TABLE III

CONSTRUCTIVIST THEORY

- anarchy is what states make of it
- defining international structure as being socially constructed
- international politics = collective values and social identities
- cooperation is valuable
- identities and interests are not grounded in material forces
- identities and interests are central determinants of state behavior
- optimism about international relations
- conflict is evitable
- conflict is caused by hostility
- communication to find common goals
- key organizations: nongovernmental and international organizations
- morality is subjective
- shape ideas and language to promote reality

Although constructivists focus more on the positive aspects of relationships such as the emergence of human rights or eradication of poverty, other theorists stress the failures of organizations, conflicts arising in the cooperative relations or actions taken in opposite directions regarding international partners.

They can pursue objectives like competition, employees or budget, but such an attitude might lead to a dysfunctional bureaucratic culture that tolerates inefficiency. Constructivism is still a controversial approach to the study of global economic governance, but cannot be ignored in terms of filling up the gaps of the other two theories.

V. CONCLUSIONS

The liberal theories presented in this paper analyze the role of international organizations, international law and global systems as playing a positive role in facilitating cooperation as main instrument in global economic governance. These views are in opposition with those outlined by realists, who are mainly interested in the exercise of power and interests of the states. Constructivists come and add the approach of identity and interest, which reshapes the paradigm of global economic governance.

The analysis determined the interpretation of each paradigm on the concept of global governance and identified the strengths and weaknesses of these theories in conceptualizing the aforementioned themes.

The concept of global economic governance can be used to describing the prevailing global order and the most appropriate way of redefining the actual economic system. This concept is interesting not only because of the growing literature and interest in finding a proper definition, but more in challenging the limits of traditional international relations theories to explain a world where the shape and the role of individual states is changing.

Even if particular theoretical paradigms try to emphasize specific characteristics of global governance, no one has been able to capture the complexity of this subject. Thus, the conceptualization of global economic governance requires a combination of particular aspects of different theories, which are deficient independently speaking, but together they can explain power, order, norms and change in world order.

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