INTERNATIONALISATION: WHAT SCHOLARS MAKE OF IT?

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This paper examines the theory and evidence used to support different claims about the effects of economic internationalisation on government policy and political authority. One set of views argues that internationalisation produces constraints on a range of government policies. These expectations draw upon two distinct, and potentially contradictory, models of constraint. Other approaches argue that, in addition to policy constraint, internationalisation promotes fundamental change to the nature or organisation of political authority. Most of these approaches rely on models of policy constraint and extend them by introducing definitional arguments and borrowing from constructivist international relations theory. Evidence of internationalisation’s effects is weak and mixed, highlighting the need for greater attention to points of conditionality and alternative explanations.
INTERNATIONALISATION: WHAT SCHOLARS MAKE OF IT?

N. Hamilton-Hart

Internationalisation

If economic transactions increasingly occur across national boundaries, what does this mean for government policy and political authority? Studies of internationalisation have taken this as a major research question over the past decades and the result is a diverse body of scholarship. However, not only is there no consensus as to the effects of internationalisation, theorists have not established a framework for assessing competing assertions. Many claims appear incommensurable, causal arguments are often not stated explicitly and debates over the effects of internationalisation are confounded with debates over its extent. This paper examines the assumptions on which different theories of internationalisation rest. It argues that while there exists a causal logic by which internationalisation can be linked to a range of outcomes, this is frequently misconstrued. What we actually know about internationalisation is even more limited, as evidence of its effects is very uneven. This means that much of the conventional wisdom on which many approaches build is, at best, largely unsubstantiated.

The alleged effects of internationalisation on government and government policy are wide-ranging. Internationalisation has been linked to a fundamental transformation of political authority, to the end of independent monetary policy, and to cutbacks in social welfare spending. Some ascribe an increase in the power of central banks to internationalisation, others assert that internationalisation diminishes the role and effectiveness of central banks. And then there are those who deny that internationalisation has any of these effects. Can the scholars making these divergent claims possibly be talking about the same set of causal forces? In some cases they are not. Internationalisation for a cultural theorist describes a different set of trends from those considered by a macroeconomist. This paper limits discussion to those who are writing, by and large, about the same set of trends. That is, to those who see economic forces driving the changes they identify in politics and policy.
A definition that is consistent with a range of theoretical views is that internationalisation is the increase in international exchanges of goods, services and capital relative to the national economy. Internationalisation is also usefully described as an increase in the potential for international exchanges, whether they occur or not. That is, it is ‘an exogenous decrease in the cost, or increase in the rewards, of international economic transactions’ (Frieden and Rogowski 1996: 26). This means that changes in costs, such as those that relate to transport, communications or government policies, change incentives for trade, foreign investment or currency transactions. In practice these two definitions are complementary since the costs of international transactions are rarely measured directly and in general will be influenced by actual levels of international exchange. The costs and risks of international financial investment, for example, decrease as international financial markets increase in size and depth.

Although this paper uses the term internationalisation to describe the increase in international exchange relative to the national economy, others use the term globalisation in a similar way. A survey of the globalisation literature concludes that the ‘vast majority of globalisation theorists present it as a characteristic of economic activity’ (Clark 1997: 21). Some globalisation theorists, even those who limit themselves to economic factors, maintain they are talking about quite a different process. The final section of this paper examines this contention, along with how different definitions of internationalisation affect analysis. We shall see that economic globalisation, as it is actually used, is not a fundamentally different process from internationalisation.

This study categorises theories of internationalisation according to the type of effects internationalisation is expected to produce: effects on policy, or effects on the nature of political authority as well as policy. The second section looks at claims that internationalisation limits the feasibility of a range of government policies, from an independent monetary policy to regulatory policy. Section three examines the contention that internationalisation produces a re-ordering of political authority. Evidence for different claims about internationalisation is discussed in the fourth section. Section five offers some conclusions as to what we know about internationalisation and how best to study it.

A general conclusion arrived at here is that despite the depth and diversity of scholarship, we know surprisingly little about the effects of increasing

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1 This is in line with usage in works such as Banuri and Schor, eds (1992), Berger and Dore, eds (1996), Boyer and Drache, eds (1996), Hirst and Thompson (1996), Jones (1995) and Keohane and Milner, eds (1996).
economic openness on government. The internal logic of many claims is weak and even when this is not the case, few meaningful, empirical tests of key propositions have been made. Market pressures have frequently been misconceived as explanations of policy change. Critical replies to internationalisation theories have, for the most part, focused on refuting the most general and far-reaching claims. Although they have brought useful evidence to bear, much of it has been over-extended. While we cannot confidently state that internationalisation promotes regulatory convergence, less generous social welfare policies, or monetary policies aimed at very low rates of inflation, these remain fairly coherent claims that deserve empirical investigation. Predictions about government withdrawal from the market, market pressure to prioritise overall economic efficiency or a fundamental change to the state stand on much weaker theoretical and empirical ground.

**Internationalisation and policy constraint**

This section looks at the contention that internationalisation acts as a constraint on government policy. At this stage, the aim is to explore the logic behind the arguments employed. Some of the evidence is discussed in a later section. Most arguments about policy constraint rest, implicitly or explicitly, on two mechanisms by which internationalisation operates. These are first, the way internationalisation changes the preferences of economic actors and second, the way it changes the relative influence of different groups. This can result in both a change in policy and a change in the effectiveness of certain policies, with the two outcomes often confounded even though they are not necessarily complementary. These theories are driven by economic actors responding to market prices and political opportunities, which in turn will be influenced by the institutional environment in which they operate. Government actors can be included by treating them as a political interest group (Garrett and Lange 1996) but these models have difficulty theorising government as an actor in any other way. As we shall see, this has implications for the internal coherence of some predictions about policy change.

Internationalisation affects the preferences of economic actors by altering the incentive structure they face. Reduced barriers to trade in goods or services, whether due to regulatory or technological change, raise the incentive to compete in world markets and increase the necessity of competing against world market prices (Frieden and Rogowski 1996). A concern with competitiveness will make firms favour government policies (including monetary, tax and regulatory policies) that, at a minimum, do not put them at a disadvantage. Companies
which fail to meet international competition will suffer declining market share; the countries in which they are located will experience declining economic welfare. The process is much the same with capital flows: as the costs of moving capital internationally decline, the threshold at which the decision to locate in a different country becomes rational is also lowered.

As national industries become internationally-oriented and competitive, they also become more concerned with access to investment sites and markets abroad than with protecting a domestic market (Milner 1988). Those owning mobile productive resources, such as capital, are likely to favour different government policies on protection, the exchange rate and inflation from those who own immobile ones, such as land or labour (Frieden 1991). While the specific preferences ascribed to mobile, internationally-oriented groups are not always complementary (exporters will favour a relatively weak currency, the financial sector a relatively strong one), a shared preference will be for domestic price stability. As potentially mobile or internationally competitive sectors account for an increasing share of economic activity, their influence (all other things being equal) will grow simply because of this increased weight.

Even when the proportion of economic activity different groups account for does not change, internationalisation changes their relative influence. Increased bargaining power accrues to holders of potentially mobile assets, since enhanced influence is conferred on actors who can make credible threats to ‘exit’ (Hirschman 1970). Conversely, relatively immobile economic groups, such as labour or agriculture, will see their influence diminish. Capital mobility and the possibility of ‘middle class strikes’ are not only associated with modern and open financial regimes (Kindleberger 1987: 57–8), but the advent of open financial markets increases the scope for capital mobility.

The costs of bargaining mean that it is often not engaged in directly but the preferences of holders of mobile assets may still be incorporated into policy, which can anticipate pressure before it actually occurs.² Investor preferences extend to any number of policy issues, including tax rates, inflation and government deficits. Inflation is a well-recognised redistributor of wealth from net creditors to net debtors (Galbraith 1975: 43) and low inflation also produces particular distributional gains and losses (Kirshner 1998). Those economic groups which benefit from the distributional effects of low inflation include some of those privileged by internationalisation: financial sector firms and investors.

² This dynamic is raised by many studies which build on conceptualisations of the structural power of capitalists that is due to their ability to withhold investment (Lindblom 1977).
Applied to regulatory policy, capital mobility may increase the pressure for deregulation as states ‘compete for the right to regulate capital’ (Andrews 1994: 198).

Whether regulatory competition actually tends to produce deregulation is taken up later. It is at least a plausible explanation for a trend which has become common from the 1980s. It is also consistent with the fact that the deregulation and liberalisation trend is comparatively advanced in the area of finance. Not only is finance among the most internationalised of economic sectors, it is also one in which the actors appear to be particularly mobile. Financial firms can relatively easily engage in what has been called ‘regulatory arbitrage’, moving their activities to locations that offer the most favourable regulatory and tax conditions (Kane 1987; Hammond and Knott 1988; Cerny 1993a; Andrews 1994; Laurence 1996). Compared to either trade liberalisation or coordinated regulation, financial deregulation poses fewer collective action problems at the domestic and international level (Helleiner 1994b).

The erosion of monetary policy autonomy in an open system is relatively uncontested. Under conditions of perfect capital mobility it is impossible to maintain an autonomous monetary policy and a stable exchange rate. Allowing national rates of interest to fall below world levels will prompt capital outflow. Conversely, interest rates at higher than world levels will prompt capital inflows, which if not absorbed by exchange appreciation can lead monetary authorities into self-perpetuating attempts at liquidity control. Even if interest rates are not targeted directly, other monetary levers such as reserve requirements are undermined by an internationalised banking system.

The constraint on monetary policy brought about by capital mobility operates without any intervening political process. Assuming perfect capital mobility, governments that attempt an independent monetary policy will automatically be sanctioned by financial market activity. Further, financial market sensitivity to rates of return includes a sensitivity to expected future rates of return. Hence the relationship between government credibility and financial market confidence becomes important. If internationalisation increases a government’s concern with credibility on monetary policy, it may make institutional change to lock in certain monetary policy goals increasingly attractive. For this reason, internationalisation has been cited as a factor behind moves to increase central bank independence, by which governments gain

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credibility through making it more difficult for themselves to pursue expansionary monetary and fiscal policies (Goodman 1992; Maxfield 1994, 1997; McNamara 1998). Left wing governments can come under particular pressure to demonstrate their anti-inflationary bona fides by granting central bank independence (Simmons 1994). Increasing central bank independence and authority are also likely to provide financial sector interest groups with an important political ally whose status can become institutionally-embedded (Goodman 1992; Kurzer 1993).

At this point it becomes apparent that some of the specific predictions about the effects of internationalisation are potentially contradictory. How is one to reconcile the prediction that low inflation will be prioritised with the prediction that an independent monetary policy becomes impossible? Both predictions can in fact be correct. The Mundell-Flemming thesis on capital mobility does not predict either expansionary or contractionary monetary policy. It simply states that if capital is mobile, governments face a trade-off between exchange stability and an autonomous monetary policy. Capital mobility can frustrate a tight money policy as much as expansionary policy, as demonstrated by the dilemmas many Asian countries faced in the years leading up to the 1997 currency crisis. In these circumstances, if internationalisation increases the salience of demands for low inflation, policy will have rather perverse effects—a central bank preoccupation with low inflation will create a self-defeating cycle of attempts at liquidity control through increasing interest rates, which only serve to encourage further capital inflows. Ironically, the more credible a central bank’s commitment to low inflation, the more investors will discount the risks associated with their behaviour. The effects of having an influential anti-inflationary lobby, possibly bolstered by institutional barriers to expansionary policy, may be perverse in other ways. There is no compelling evidence that the kind of inflation rates independent central banks seek are at all related to improved economic growth (Kirshner 1998). The commitment to low inflation and currency stability can, in some circumstances, have disastrous effects on growth (Eichengreen 1992) and exacerbate international monetary instability (Simmons 1996).

The potential conflict between the demands of economic groups privileged by internationalisation and what are optimal, or even sustainable, economic outcomes does not reveal a flaw in the idea that capital mobility acts as a constraint on policy. What it reveals is that internationalisation acts in two ways: as a condition which alters the effects of policy once it is implemented, and as a condition which makes some policies more likely to be implemented. In the first case, as in the Mundell-Flemming thesis, no predictions are made about
policy choice. Rather, if certain policies are pursued they will fail to have their desired effects or will be costly. The logic only requires markets to respond to price incentives, in this case the rate of return on financial assets. Similar logic supports predictions that internationalisation creates incentives to prioritise economy-wide efficiency. High-cost economies will lose out in global competition. If state-owned enterprises, social welfare systems or restrictive regulatory policies make an economy uncompetitive, market pressures may create incentives for privatisation or liberalisation.

This type of market pressure, however, is indeterminate. Market pressures ‘may signal problems and provide general pressure for change without providing unequivocal clues about which policies and institutions need to be altered and how’ (Berger 1996: 20). Predictions about market pressures vary with the model of economic development (Boyer 1996). If an economy appears uncompetitive, is this because its labour markets need to be deregulated or because national education markets have failed to generate appropriate skills? Financial markets are an especially poor guide to optimal economic policy, since they are prone to rise and fall for reasons that do not necessarily have anything to do with ‘economic fundamentals’ (Harmes 1998).

The other way in which internationalisation acts as a constraint on policy is through the political and economic pressures exerted by specific economic groups. Change in their preferences and relative power can bring about change in policy, either through direct lobbying or because political authorities anticipate capital or labour ‘strikes’. If policy does not adjust and such strikes are carried out, the results of failing to adjust policy can manifest themselves as market pressure. But the reasons behind this pressure are worth emphasising. Regardless of the justifications employed, interest groups are not motivated by economy-wide efficiency. They lobby in support of their own interests, as they conceive them, to the extent the projected benefits outweigh the costs (Moravcsik 1993). The preferences of mobile and competitive groups at times coincide with the policy measures that enhance growth and general efficiency. But, even when true, this is incidental. It is also more consistent to suppose that influential groups will attempt to gain some kind of implicit or explicit subsidy. As a first preference, why would an influential group aim at anything else? This in no way rules out the possibility that failure to provide the subsidies demanded will result in general economic costs: strikes by capital or labour impose general costs even though the strikers’ demands are for group-specific benefits, not general ones.

The internal logic of arguments about internationalisation suggests that the preferences and power of particular groups will be most important in determining
policy choice. The causal process by which the changed preferences and power of different economic groups affect policy is relatively direct, and can accommodate qualifications based on domestic politics and institutional design. Policy immobilism, interest group structure and institutional design will all affect the process of translating economic and political pressure into policy change. Nonetheless, it is still possible to predict that the preferences and power of particular groups will create pressures for policy change, even if change itself is influenced by the political structure of a particular country.

If, on the other hand, the prediction is that the economic limits to policy feasibility brought about by internationalisation will translate into policies promoting general efficiency or economy-wide benefits, more assumptions have to be introduced. Collective action problems need to be resolved if efficiency-enhancing policies are to be implemented or counter-productive attempts at an independent monetary policy ended. In some cases it will be necessary to limit the influence exerted by those economic groups privileged by internationalisation. The prediction that this will occur must involve adding something to the model of internationalisation: a partially-independent state, for example, or interest groups that are not motivated by economic self-interest. These are reasonable factors to introduce, but they rob the model of much of its predictive power, certainly its parsimony and theoretical attractiveness. The greater the indeterminacy in policy choice or sustainability, the less it is possible to see capital mobility as a variable that ‘systematically constrains state behaviour by rewarding some actions and punishing others’ (Andrews 1994: 197).

Overall, the most internally consistent and determinate arguments about the effect of internationalisation on policy choice are those which identify a channel by which policy is shaped, namely the preferences and power of economic groups. Arguments that do not attempt to predict policy choice but specify which policies internationalisation makes costly or ineffective are strongest when they base predictions on the market reaction to relative prices. This is most clear cut when applied to monetary policy, but even here the variable basis for risk assessments means that predictions will be qualified. The more complex the causal chain between government policy, relative prices and market reaction, such as when analysts introduce assumptions about which policies enhance efficiency, the greater the scope for alternative outcomes. Two points about what can be deduced from the cost or feasibility of policy need to be emphasised. First, translating economic pressure into policy requires introducing

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political actors. Second, economy-wide economic pressure may have its origin in the actions of specific economic groups on behalf of their particular interests. Thus the ‘economic commentators, prominent bankers and Marxists’ who have all suggested that capital mobility can discipline government policy (Pauly 1995: 372) may be right. But underlying assumptions about market or political rationality need to be made explicit. What exactly is being disciplined: the failure to provide economy-wide goods or the failure to provide certain economic groups with particular goods?

**Internationalisation and political transformation**

The idea that internationalisation entails a fundamental re-ordering of political authority, not just a constraint on policy or a change in national preferences, has gained increasing currency. Four types of argument about fundamental change can be distinguished. The first is built on an alleged change in the functionality, power or competence of the state. A second posits changing economic and political identities as behind political transformation. A third line of reasoning points to the diffusion of state authority to non-state actors. A similar approach argues that internationalisation promotes a reorganisation of state authority. Although this section discusses each claim in turn, they are not mutually exclusive.

**Loss of state functionality**

A typical statement about the loss of state functionality, competence and power comes from Susan Strange, who writes:

>...the authority of governments of all states, large and small, strong and weak, has been weakened as a result of technological and financial change and of the accelerated integration of national economies into one single global economy. Their failure to manage the national economy, to maintain employment and sustain economic growth, to avoid imbalances in payments with other states, to control the rate of interest and exchange is not a matter of technical incompetence, nor moral turpitude nor political maladroitness. None of these failures can be blamed on other countries or on other governments. They are, simply, the victims of the market economy (1996: 13–14, emphasis added).

As a consequence, many of the ‘fundamental responsibilities of the state... are not now being adequately discharged by anyone’ (Strange 1996: 14). This
assessments of what internationalisation entails is widely shared. Cerny's argument that the national-level political process is superseded as globalisation has reshaped 'the structural context of rational choice' comes to similar conclusions, although with more formalised underpinnings. In his view, the new conditions mean that the nation-state is no longer the efficient or viable arena for the provision of public and private goods (Cerny 1995).

In many ways, these arguments are no different from ones about policy constraint, even though some authors maintain they are talking about more than this. For example, the assertion that 'global corporate networks challenge the internal sovereignty of states' because 'a government no longer has a monopoly of legitimate power over the territory within which corporations organize themselves' (Reinicke 1998: 65) does not add up to more than policy constraint. Reinicke’s conclusion that this marks a condition distinct from ‘old’ interdependence is hard to deduce: a government’s inability to control activity outside its territory is exactly the condition Richard Cooper analysed thirty years ago (Cooper 1968). Although often under-specified, the channels through which internationalisation operates are also basically the same. Cerny, for example, most frequently cites regulatory arbitrage, market expansion and the development of the ‘competition state’ as the key factors producing change. He also expands the list to ‘internal pressures from institutions, market actors, political processes or state actors...exogenous and/or transnational pressures from international markets, powerful international firms, and other states’ (1993a: 78-9). This collation of forces for change actually adds very little to the arguments described in the preceding section.

Theories of political transformation set themselves the additional task of explaining why the loss of state power or functionality constitutes something more than a constraint on policy. Even assuming states have become dysfunctional in many ways, there are limits to what one can infer from the finding that the state is no longer an efficient vehicle for collective action. If a competitive selection process operates among forms of political organisation, dysfunctional units will still endure until more effective alternatives emerge (Tilly 1990). But the assumption that there is a competitive selection process among political units may itself be incorrect. Particularly in the post-war era, efficiency and effectiveness had very little to do with why state structures were established or maintained (Finnemore 1993). Many states bordering on collapse

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have been sustained by the international system of states (Jackson 1990), which has set very little store on the functionality of its members.

Strange’s notion that the policy constraints of internationalisation impinge on ‘characteristic state functions’ is an alternative way of justifying the conclusion that policy constraint has deeper implications for political authority. This immediately raises the question of what characteristic state functions are. As discussed in the next section, many of the state functions that internationalisation may disrupt are not characteristic. Even currency issue, often taken to be an exclusive prerogative of government in the modern system, has only recently become a purely state function. Rather than particular policies being characteristic of the modern state, its essential characteristic is exclusive political authority. As discussed below, internationalisation may promote the diffusion of political authority to non-state actors or its reorganisation along different principles. Arguments that are limited to pointing to the dysfunctionality of states, or the rising influence of economic actors on state policy, cannot by themselves say anything about whether political authority is fundamentally changing.

The transformation of economic and political identities

An alternative to looking at the power or functionality of governments is to look at the ways internationalisation might change key economic and political identities. If the economic and political basis of national identity is fundamentally restructured by internationalisation then the state becomes a less meaningful entity. It may endure simply because of institutional inertia but key notions that drive conventional international relations theory, such as a distinct national interest, become redundant. To the extent that this change in identities is related to economic internationalisation, it is rooted in the transnationalisation of production and ownership. The argument is that economies of scope and scale made possible by internationalisation mean that national control of the production process ceases to be viable. Inter-firm alliances and cross-ownership make it impossible to distinguish what is a ‘national firm’. Increases in direct investment blur the issue of what is a national product and, wherever final assembly occurs, components will almost certainly have been sourced from other firms and other countries.

Assuming for the moment that production and ownership really have become significantly transnationalised, does this mean that concepts such as a national interest are of declining relevance or meaning? National identity and

6 Robert Reich (1992) has been an influential expositor of this view.
interest are not so easily marginalised. Only an extremely instrumental view of political identity would maintain that private economic interests dictate national public interests or identities. For those who would always have taken issue with the assertion that ‘What’s good for GM is good for America’, the fact that America is now host to many foreign companies should not pose any conceptual difficulties about national interests. Automatic support for firms flying national colours should become harder to justify politically but much of the (public) national interest remains as it was: to see, for example, that tax, environmental and worker safety laws are abided by, to promote the growth of business concordant with the need to provide jobs and tax revenue, and to see that domestic political processes are not undermined. There is no reason to suppose that foreign companies per se are more able or likely than domestic ones to compromise any of these interests.

It is possible to follow different routes to the conclusion that internationalisation tends to alter political identity and undermine the notion of a public, national interest. If the distinction between public and private breaks down as a consequence of internationalisation, significant change in political identity may occur. This, of course, will depend on one’s baseline for measuring change. It would not represent significant change in Japan, for example, where public and private actors and interests have often been closely entwined. If the prediction is that changes set in motion by internationalisation produce a ‘colonised’ or truncated public sphere, this would not entail any change at all for the majority of the world’s polities, where the public sphere and government authority are either weak or extremely permeable (Migdal 1988). The emergence of private patronage networks that either restrict or take over public authority would, however, signal major change for some countries. Do we have reasons to relate such change to internationalisation? Theobald (1995) is one of the few to provide an explicit account of how recent policy changes might end up producing a ‘new patrimonialism’. He argues that the increased commercialisation of government organisations, the increased tendency to ‘contract out’ government services and the downgrading of public service may produce a new patrimonialism by decreasing public access to information, increasing the potential for political patronage and reducing the role for publicly-oriented organisations. Thus, pressures for policy change may have significant downstream effects on political structures themselves. This is a suggestive line of reasoning but, as a theory of internationalisation, it rests on arguments about policy constraint.
The diffusion of state authority to non-state actors

Arguments about the erosion of state power or competence are often combined with arguments about the emergence of new types of political authority that do not reside in the state. One version is that non-state actors are acquiring significant political authority. Examples of non-state authorities offered by Strange (1996) include private international cartels, organised crime and the international accountancy and telecommunications firms.\(^7\) The international institutions that control the provision of finance are often cited as examples of non-state authority. For example, international credit rating agencies are described as having more disciplinary power than governments (Sinclair 1994). Similarly, the power of organisations such as the International Monetary Fund and the World Bank to restructure economies is often read as a signal of lost state authority (George and Sabelli 1994).

What distinguishes claims about the emergence of non-state authorities from ones about the increasing influence of mobile capital is the contention that non-state actors now enjoy political authority themselves, not just influence via national governments. Strange is one of the few to make this case explicitly, but in order to do so uses an extremely broad definition of political authority. Non-state political authority is exercised ‘by any association, organisation or institution other than a state whose decisions indirectly [or directly] affect the choices of others in society’ (1996: 91). Further, she argues that the power of such authorities is not necessarily exercised consciously or in accordance with their intentions (1996: 26). With a definition like this it is fairly easy to find many instances of non-state political authority but little is offered to support the view that conventional political authority has become disbursed. And conventional definitions matter for any argument about fundamental change. The primary feature of a political authority is the exclusive authority to promulgate and enforce laws. The sovereign has conventionally been described as that ‘which renders habitual obedience to no one’ and is the sole source of legal rules - or, in the older version, orders backed by force.\(^8\)

Private non-state actors could emerge as new centres of political authority and undermine the present state-based system of authority. A manageable way

\(^7\) See Reinicke (1998) and Sassen (1996) for other examples.

\(^8\) The quote is from Hart (1961: 49) in his elaboration of Austin’s work. The underlying idea is at the heart of western political thought, as illustrated by Locke’s formulation that what distinguishes a political authority from other social authority relations is a government (‘commonwealth’) with the power of making and enforcing laws and the ‘power of peace and war’ (1952: 49).
of analysing the potential for such change is to identify the new political coalitions that emerge from changes in preferences and power, and to assess whether these coalitions have an interest in investing in new institutional forms (Spruyt 1994: 7, 188–94). It is far from clear that the changes in preferences and power allegedly brought about by internationalisation produce any momentum for institutional change. The policies favoured by the most competitive and influential economic groups may be predicated on, and securely locked in by, the present system of national governments (Streeck 1996). If this is so, the interests privileged by internationalisation have little incentive to create new institutional forms. Whether this is the case or not, the first step in verifying claims about the transformation of the state is to assess arguments about the shifts in preferences and power said to be brought about by internationalisation.

The reorganisation of state authority

Arguments about the reorganisation of state authority are many ways similar to arguments about the emergence of non-state political actors. A common theme is that the geography of state power is moving away from a territorially-based notion of exclusive sovereignty. Some accounts of the changed geography of state power are similar to statements about policy constraint. Ohmae’s region-state, for example, is essentially an area in which markets operate autonomously—there is no indication that political functions will be provided by anything other than traditional modern states (1995). Other pronouncements about the changing organisation of power lack a clear specification of what has changed and why. The size, speed and allegedly extra-territorial nature of financial flows may entail a radical break with the past in the way financial markets operate and this may have fundamentally altered the position of government regulators. But these two hypotheticals will not be decided by looking at the size and speed of the flows themselves or by elaborating on Giddens’s concept of ‘time-space distanciation’ as the ‘conditions under which time and space are organised so as to connect presence and absence’ (Williams 1996: 117).

More specific arguments about the reorganisation of state authority maintain that the modern state system based on exclusive territoriality is becoming transformed into a mixed system in which state power is selectively channelled upwards and downwards. Channelling state power upwards creates functionally-specific, supranational, governing structures (Rosenau and

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9 Scholars as diverse as Wallerstein (1979), Huntington (1973) and Keohane (1982) all point to ways in which international firms are dependent on, or have an interest in, government power and the current system of political organisation.
Czempiel, eds, 1992; Sassen 1996; Reinicke 1998). Simultaneously, political authority may be channelled ‘downwards’ into local spheres of authority. There is no contradiction between the two trends: selective supranationalism and localisation can both contribute to the emergence of a new system of variegated government or governance (Jessop 1997).

What any such changes in the geography of political authority have to do with internationalisation is not obvious. Many accounts piggy-back on constructivist international relations theory, making it unclear what role, if any, they ascribe to economic change. The ‘unbundling of territoriality’ identified by Ruggie (1993) is frequently used to support arguments based on economic internationalisation (for example, Reinicke 1998: 64). But Ruggie, like others making sociological-institutionalist arguments (for example, Wendt 1994), does not rest his case on the economics of internationalisation but on the socialisation of the actors involved. Thus, however aptly they describe current political developments they are not arguments about internationalisation. Like arguments about the emergence of non-state political authorities, theorists making claims of state transformation due to economic internationalisation need to specify both the economic incentives and the political dynamics behind transformation. These models of transformation, as theories of internationalisation, rest on arguments about policy constraint. This may be unfair to authors who employ quite different modes of analysis. However, an approach that is based on incommensurable standards is engaged in an internal exchange of views. 10

**Evidence**

To the extent that contending views of internationalisation have anything to do with evidence, three major areas of disagreement have emerged. The first concerns the measurement of internationalisation. How strong is the evidence that it exists and to what extent is it a novel trend? Secondly, there is debate over evidence of its alleged effects, and over how this evidence should be interpreted. Finally, there is debate over the causal processes at work. That is,

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10 Many who present the case for transformation ignore contrary views or assert that conventional approaches ‘treat states as interacting “black boxes”’ (Taylor 1996: 100) and that the dominant paradigm has marginalised economics and neglected history and theories of the state (Peterson 1996: 19–20). This reduces the ‘dominant paradigm’ to Waltzian neorealism, with influential works focusing precisely on history, economics, and theories of the state (Gilpin 1981; Katzenstein 1978; Krasner and Nye 1977; Krasner 1978) mysteriously excluded.
changes attributed to internationalisation may actually be due to other factors. At a minimum, models of internationalisation have to address two major points of contingency that the evidence points to: the differential effects of different domestic structures and the scope for international cooperation.

The extent and novelty of internationalisation

There is no doubt that there is a lot of international economic exchange going on. What critics have argued, however, is that few indicators of internationalisation show an overwhelming or unprecedented shift away from the national economy, at least for most OECD countries. According to Robert Wade, more than 80 per cent of production in most large economies is for domestic consumption and more than 80 per cent of investment is made by domestic investors (1996: 61, 70). Evidence that multinational firms have become transnationalised is particularly weak: most remain strongly connected to their home countries, in terms of ownership, management, personnel and assets (Hu 1992; Hirst and Thompson 1996: 95; Doremus, et al. 1998), and display enduring differences based on national origin (Pauly and Reich 1997). Indicators of limits to capital mobility, such as differences in real interest rates and the price of equity remain significant, even among countries with virtually no barriers to financial flows and no country risk (Wade 1996: 75).

The novelty of internationalisation is also contested. Obviously, this depends on the selection of countries and time periods as well as the measures used. Hirst and Thompson argue that there is nothing unprecedented in current levels of integration of either the real or monetary economy (1996: chapter 2). For some post-colonial countries, levels of trade, inward foreign investment (including in financial services), and capital mobility in the 1950s and 1960s were as high or even higher that OECD averages in the 1990s (Hamilton-Hart 1999). Current levels of financial market internationalisation are not much, if at all, higher than those experienced earlier this century and in the late nineteenth century (Zevin 1992).

These observations need to be used carefully. The contention that internationalisation is actually at low levels does not say anything about its effects. Examples of the limits of internationalisation also tend to be biased as to what is exceptional – most countries do not resemble the US or Japan. Overall, while internationalisation has been exaggerated on some measures (for example, the alleged ‘de-nationalisation’ of multinational firms), it hard to sustain the contention that it is at uniformly low levels. The rules governing the international movement of money clearly have changed in the world’s leading economies since the 1950s (Helleiner 1994a). The other way of discounting
change, the observation that it has all happened before, does not refute many arguments about internationalisation. The finding that there were high levels of internationalisation in the late nineteenth century actually supports many claims about policy constraint. On the other hand, if the modern state system existed at all it was in the nineteenth century, so high levels of internationalisation at that time put in doubt some state transformation theses.

Evidence of predicted outcomes

Leaving aside the issue of establishing a causal connection with internationalisation for the time being, there is very limited evidence that the predicted outcomes, whether of policy constraint or political change, have occurred. For example, the expectation that internationalisation reduces the size of the government sector in the economy is not supported empirically. A multi-country study by Dani Rodrik (1998) shows the reverse outcome: internationalisation is positively associated with the size of the government sector. This suggests earlier analysis of how governments can mediate the effects of openness (Katzenstein 1985) has not been overtaken by economic trends since the 1980s.

Other outcomes predicted by internationalisation theories have also not occurred. The hypothesised flight of capital to low-wage, low-tax and lightly regulated investment sites has only occurred in a few industries. During the world-wide upswing in foreign investment flows since the 1980s, these flows were concentrated in OECD countries (Wade 1996: 70; Hirst and Thompson 1996: 63–7; Reinicke 1998: 41). What is more, the flow of investment to the OECD includes investment coming from countries such as Indonesia and China, which have lower tax, wage and regulatory costs. The efforts exerted by and on behalf of companies trying to invest in Japan, where prices are high, the regulatory environment restrictive and tax rates among the highest in the world, show that these things are not necessarily a disincentive to investment.

More generally, the convergence in economic policies and institutions predicted by many theories has not yet occurred and in many parts of the world does not seem to be occurring (Boyer 1996; Beger and Dore, eds, 1996; Evans 1997; Vogel 1996). Accounts of convergence often give undue emphasis to monetary policy, which is most clearly hindered by capital mobility, but is rarely of overriding importance in economic policy (Cohen 1996: 282). Governments still have latitude, even if qualified, to pursue interventionist and redistributive policies (Garrett and Lange 1991; Garrett 1996; Weiss 1998). Internationalisation’s effects may also vary with a country’s position in the international
division of labour (Hoogvelt 1997). This kind of cross-national variation is an important finding. Variation itself, however, can support a range of conclusions.

One conclusion is that internationalisation affects some states more than others, which is a reason for introducing greater conditionality in models of internationalisation. Different domestic structures can produce different responses to a common set of external forces (Katzenstein 1978). Linda Weiss, for example, argues that ‘catalytic’ states with strong developmental capacities are able to take advantage of internationalisation (1998). If internationalisation can provide ‘rationales for “high stateness” as well as “low stateness”’ (Evans 1997: 64) it means that theories which take it as a systemic trend to which all states are equally subject are exaggerated. This does not mean, however, that it has no causal effects. Internationalisation can still exacerbate pressures associated with weak governing systems, even if it has minimal effects on others (Hamilton-Hart 1999).

Another conclusion that is consistent with the finding of cross-national variation in outcomes is that this simply marks different initial conditions. Cross-national variation may co-exist with significant within-nation change. What is more significant? Those basing their arguments on the observed variation in policy outcomes need to demonstrate that the variation is non-trivial and likely to be in enduring. It is possible to make the case that distinct national institutions exert more than a fading influence. Japanese policy on outward investment, for example, has been interpreted as the transnationalisation of its economic management systems, not their abandonment (Katzenstein and Shiraishi, eds, 1997).

Enduring national differences on a wide set of economic policies indicates there is no one model that is competitive. This has implications for which policies will end up being costly if countries that fail to increase competitiveness are ‘disciplined’ by internationalisation. But if states which successfully pursue policies that diverge from most liberal expectations have simply found ways to compete more effectively, quite a lot has been conceded. Linda Weiss’s ‘catalytic’ state, for example, is rather similar to Cerny’s ‘competition state’, which is thoroughly transformed by internationalisation and an agenda of economic competitiveness. On the other hand, such states raise questions about models of internationalisation that are driven by the preferences and power of economic groups. If ‘catalytic’ or ‘competition’ states require a certain degree of autonomy from economic interest groups, their existence suggests that the groups privileged by internationalisation are not able to dominate policy.

Evidence that governments are actually at least as active and effective as in the past undermines some predictions of the reduced role or competence of
government. For example, rather than financial markets becoming increasingly ungoverned and prone to systemic crisis, they have been subject to increased prudential regulation which is now at unprecedented levels. At the national level, charges that deregulation has removed government from the financial decision-making process (Cerny 1993b: 171) ignore the consolidation of control by governments over the many aspects of the financial system. For most of its history, the US had no single issuer of the national currency and no national regulator of financial institutions. Many European countries did not nationalise their central banks until well into the twentieth century. From 1997, governments and inter-governmental organisations were the major players in devising rescue packages for countries affected by financial crises in Asia, Russia and Latin America. Such efforts do not eliminate instability, but governments have never consistently been able to do this.

Very often, where unilateral policy is compromised, government effectiveness is sustained by international cooperation (Vogel 1998; Hirst and Thompson 1996: 121-51). Kapstein has described the state-instituted systems for regulating international banks and argues that a fair degree of success has been achieved on this front (Kapstein 1994). The cooperation required to meet certain government goals may not occur because of international collective action problems. Or it may not occur because of the changes in national-level preferences brought about by internationalisation (Streeck and Schmitter 1991; Streeck 1996; Rhodes 1996). It remains that international cooperation is common enough to make this is an area of contingency that requires further examination.

Liberal arguments about policy constraint may predict government involvement in market-maintenance functions, such as the domestic provision of legal infrastructure and cooperative standard-setting. However, by doing this they explicitly or implicitly introduce the relatively autonomous government structures that are necessary to overcome collective action problems and market failures. Once this is done, there is the potential for a wide range of polices and goals to be pursued. Ultimately, these may all fit the long-term interests of financial market investors or capitalist entrepreneurs. For example, cooperation to ensure minimum capital adequacy ratios for international banks may be in the long-term interests of these banks. The point is, it was not in the immediate interest of any of the banks which had to go through costly capital-raising exercises to meet the new standards.11

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11 Arguably, the new capital standards were in the immediate interests of US banks, but it took efforts by the US government and international political bargaining to bring them about (Oatley and Nabors 1998).
Interpreting the evidence

As well as having to contend with counter-evidence of outcomes that do not fit their expectations, many theories of internationalisation suffer because the evidence advanced in support of them is inappropriate. Claims about the retreat of government, for example, fail to acknowledge that many governments never succeeded in exercising a good many of the functions said to be removed by internationalisation (Weiss 1998: 190–1). Given that most governments only became significantly active in the economy in the post-war era, the trend towards government disengagement from the market place (itself a disputed outcome) cannot in itself be any evidence of a new feudalism.

Claims about the transformation of political authority rest on particularly contentious evidence. So far, most of what has been advanced as evidence of non-state authority falls into the category of self-regulatory private institutions, overt criminality or lawlessness, external pressure on governments and international cooperation. But all of these have co-existed with the state-system as it has evolved in the last three hundred years. As yet, this has only very rarely produced a situation in which something other than the nominal government of a country (or claimants to that status) is in the position of enacting something similar to law, even in a circumscribed area of interest. For the moment, states remain the only entities endowed with legal authority (Armstrong 1998). Europe offers some evidence that this can change, and international human rights law is a more contested instance of non-state authority. These cases also serve as examples of selective supranationalism (or the reorganisation of state authority). What is important for the present discussion, however, it that neither is attributable to economic internationalisation.

Private creditors, rating agencies and organisations such as the World Bank are more often cited as new, non-state centres of political authority. However, they are not generically new and they are not political authorities. A reading of nineteenth century financial history would moderate many of claims of novelty. Compared to the role played by merchant bankers such as the Rothschilds (Ferguson 1998), current day financial institutions are no more transnational, politically-engaged or influential. Further, however influential they are, it is misleading to confuse the World Bank, the IMF or private creditors with political authorities. We have no evidence that the influence of either the World Bank or the IMF is other than directly delegated by member governments, notably the United States, and contingent on the borrowing government wanting to borrow.

What about the evidence that political authority is being transformed in other ways, becoming ‘de-nationalised’ or adopting new geographic forms? Here again, much of the evidence used is inappropriate. Cerny’s assertion that regulators ‘are located within a much more complex setting than that of the state, or even of the “states system”’ cannot be deduced from the fact that national regulatory authorities interact as much with their counterparts abroad and with private actors as with their home states (Cerny 1993b: 177). Such conclusions rest on a very restricted view of a unitary state, of which national regulators are not an integral part. State agencies have long had important transnational relations (Hopkins 1976) as well as relationships with the private actors they regulate - but this does not suggest a more radical change to the state system than that implied by approaches which disaggregate governments, or the national policy making process, into separate components and interests. Similarly, in what ways is any reorganisation of state authority different from federalism or conventional international cooperation?\(^{13}\) Cooperative practices do not necessarily serve to bring about new forms of authority. Rather, the meaning attached to the process of cooperation very often makes it something that reinforces the status of the modern territorial state (Armstrong 1998). So far, the strongest evidence of an evolution from cooperation to supranationalism comes from the European Union, where any new authority is nonetheless organised on recognisably public, territorial lines.

**Alternative explanations**

There are many examples of outcomes attributed to internationalisation that have plausible alternative explanations. The (partial) trend towards fiscal restraint may be explained by ‘common responses to the inflation and perceived policy errors on the 1970s’ (Zevin 1992: 73) or may be the historical peacetime norm (Mann 1988: 110). An endogenous dynamic of political change can account for the transformation of previously state-directed political economies such as Korea (Evans 1995: 229). Rather than having anything to do with internationalisation, central bank independence and an entrenched preference for low inflation can emerge from entirely domestic political processes (Johnson 1998). Government

\(^{13}\) Except for the different conclusions drawn by the authors, not much separates the cooperative state-based systems of international bank regulation analysed by Kapstein (1994) from Reinicke’s (1998) study of international financial regulation. Reinicke’s cases show the role played by financial institutions themselves and elements of self-regulation. But self-regulation by banks and financial institutions is the historical norm. It has also become increasingly discredited and there is no current trend towards self-regulation in finance.
failure or mistaken policy choices can account for many unviable cases of intervention. Few systematic attempts to test alternative explanations have been made, but two that do conclude capital mobility cannot account for changes in financial regulation and corporate taxation (Quinn 1997; Wallerstein and Przeworski 1995).

Many arguments about policy constraint suffer from a related problem of over-determination. For example, Kurzer (1993) attributes policy shifts, such as closing loss-making state enterprises and reducing fiscal deficits, to internationalisation. But one would expect that regardless of internationalisation, the mounting costs of large fiscal deficits would eventually become compelling. Sustained low growth, not internationalisation, seems to be behind many policy shifts (Weiss 1998: 191). The decline in growth rates may be due to the attempt to maintain social democratic policies under conditions of internationalisation. But establishing this requires sifting out confounding variables, such as large state enterprises that were never profitable or sustained fiscal deficits that had more to do with political inability to limit entitlements than demand management. The over-determination increases the more conventional economic theory is introduced, since it becomes very hard to distinguish the cumulative costs of bad policy with the additional pressures brought to bear by internationalisation. For example, if financial repression is inherently costly, financial deregulation and liberalisation trends may be prompted by nothing more—or less—than the cumulative effects of a sub-optimal policy.

Financial development is a trend that may also account for many of the changes attributed to internationalisation. As the ratio of financial assets to GDP increases, financial sector firms become more important and finance becomes less scarce. This can be expected to have a number of effects. The decreasing scarcity of finance makes it harder for governments to control access to it. A developed banking and financial services sector plausibly demands a different kind of regulation than an embryonic one. Finally, since the transaction costs of finding alternative investment opportunities are lower for those who hold their assets in relatively liquid forms, financial development itself adds to the level of capital mobility.

Finally, the role that governments have played in internationalisation and the policy changes attributed to it tells against some theories of change. Rather

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14 Financial development can also distort many measures of internationalisation. For example, the rise in international financial transactions compared to economic output are rarely scaled to account for domestic financial deepening, which has plausible independent effects.
than knuckling under to market pressures, it is often governments that have taken, and are continuing to take, the lead in promoting the internationalisation of finance and more liberal market access and investment rules (Pauly 1988; Vogel 1996).  

This does not mean that the future of the state is assured: being implicated in one’s own demise does not leave one any the less dead. Ruggie has noted (1993) that feudal rulers promoted the institutions which eventually displaced their authority. But such policy change is a contingent and political process. If it involves significant state independence from the economic interests directly affected by internationalisation, the strongest mechanism by which internationalisation generates pressure for change is supplanted by one that is inevitably more complex and less determinate.

**Assessing arguments about internationalisation**

This paper argues that few generalisations about the effect of internationalisation on policy or political authority are supported by compelling evidence. It is worth considering whether this conclusion rests on an overly narrow definition of internationalisation. In particular, does it rest on excluding globalisation from analysis and, if so, how important is this? In many cases, globalisation falls within the definition of internationalisation used here. For example, globalisation has been used in a restricted sense, to refer to a microeconomic process encompassing the internationalisation of production, international corporate alliances, the growth of intra-firm trade, and the emergence of new actors and products on financial markets (Reinicke 1998: 11–39). In practice, this involves looking at one or more aspects of internationalisation, not something fundamentally different.

Other uses of the term globalisation define it as something more than internationalisation, not a particular aspect of it. A review of different uses of the term notes that some writers see it as a distinct, new phase in world politics, or that at the least that it marks ‘qualitative change from an economy which is simply international’ (Clark 1997: 19). Similarly, Hirst and Thompson’s distinction between a globalised economy and an international one is easily taken as implying that globalisation and internationalisation refer to different trends. Their distinction, however, is one of end-point not process: a globalised

15 Many accounts of change that illustrate the role played by governments also describe the political influence exerted on governments by economic actors. For example, Underhill (1993); Helleiner (1994a); Laurence (1996).

16 Clark himself takes the shift from an internationalised to a global economy to be of degree rather than kind (1997: 20).
economy is one in which ‘distinct national economies are subsumed and rearticulated into the system by international processes and transactions. The international economy, on the contrary, is one in which processes that are determined at the level of national economies still dominate and international phenomena are outcomes that emerge from the distinct and differential performance of the national economies’ (1996: 10). If the two trends are distinguishable only by degree, and this is only evidenced by their different effects, it seems that different alleged effects, not qualitatively different causal factors, are at issue.

Other uses of the term globalisation genuinely refer to a different, much wider, set of causal processes, from cultural exchange to ecological interdependence. While no kind of assessment is attempted here, it is worth considering whether excluding these trends materially biases the discussion or makes it misleading. By restricting analysis to the growth of international economic exchange, the totality of the different trends referred to in the wider globalisation literature escapes analysis. However, definitions of globalisation that encompass virtually all of late twentieth century life restrict the variable to a specific moment in time and thereby makes comparisons—and meaningful causal arguments—impossible. Trends such as ecological interdependence, cultural globalisation and economic internationalisation may be global. But as Michael Mann (1997) has argued, on the issue of how they affect government, some plausibly weaken government authority and state structures, others plausibly strengthen them. It is therefore helpful to separate the analysis of these diverse trends if one is interested in the prospects for government policy and authority.

It might be argued that technological change and changes in economic ideas are two factors which are integral to internationalisation and reinforce its effects on government. There are, however, reasons for separating the analysis of these factors. Technological change is plausibly neutral on the issue of policy effectiveness and political authority. Most studies that have seriously examined the argument that technological development is behind financial deregulation and internationalisation conclude that the independent role played by technological change was minor (for example, Helleiner 1994a). There is no doubt that satellites and computers have transformed the way market participants do business; and this is likely to lead to a reappraisal of regulatory strategies by governments. It does not automatically follow that any more than this has changed. Regulatory tasks are likely to become more complex but new technology is also at the disposal of government regulators. Advances in communications have increased the speed of financial transactions but it is not clear why this should entail qualitative change for governments. If international telegraphic
transfers of financial assets in the early twentieth century took effect in hours or days, while current day financial transactions are settled in minutes, the implications for monetary policy are not much different. Arguments that the transaction speed brought about by new technology makes financial panic and contagion much more likely cannot be settled a priori. It is equally possible that better quality and real-time information would produce more efficient market activity and reduce the misplaced bouts of investment in foreign bonds and shares that occurred frequently in the nineteenth and even eighteenth centuries.

Changing economic ideas may have a more determinate effect but the relationship between them and economic internationalisation warrants separate analysis. There is little doubt that from the early 1980s the dominant view in both policy and academic circles advocated the prioritisation of price stability, ending government ownership of economic assets and increasing the role and freedom of private economic actors (Biersteker 1995; McNamara 1998). The prevailing consensus as to what constitutes responsible and credible policy will have concrete ramifications for investment decisions. The beliefs of international financial market investors, for example, are a variable that may explain monetary policy outcomes in both the pre-war period and since the early 1980s (Simmons 1994; Goodman 1992; McNamara 1998). Other international actors that provide assessments of how credible or responsible governments are, from rating agencies to institutions such as the IMF, also contribute to the content of prevailing requirements for international credibility (Sinclair 1994; Biersteker 1995).

Whether these requirements should be construed as part of internationalisation or as something other than internationalisation depends on what it at issue. If ideas about responsible policy change but economic indicators of internationalisation remain more or less constant, then at the very least one should draw a distinction between which aspect of internationalisation is important. The economic interests privileged by capital mobility may also be the forces behind the construction and maintenance of what is often called a neoliberal orthodoxy or hegemony (Gill and Law 1989). But this tends to transform arguments about economic structure into arguments about social constructions and legitimacy. If this is the case, any new orthodoxy is likely to be subject to the same limits that a similar orthodoxy met in the 1920s—the limits to the political acceptability and legitimacy of domestic adjustment to international market forces (Pauly 1997).

Overall, while the processes associated with either internationalisation or globalisation may be inescapably multi-faceted (Clark 1997: 20), there is a strong case for analysing them as multiple independent variables. This is at odds with
the approach taken in many influential arguments about political transformation. Jessop, for example does not attribute the trends he identifies (denationalisation of the state, destatisation of the political system and internationalisation of policy regimes) to a specified set of causes. Further, he argues that one should not ‘treat each of these trends as a singular causal mechanism in its own right and thereby neglect their essentially descriptive, synthetic and generalised character. Nor do they contain any unidirectional movement or multilateral convergence across all national regimes; instead, they can take different empirical forms’ (1997: 573). In their own terms, such arguments are not aiming at causal propositions and, with the ‘different empirical forms’ of what they seek to describe left open, it is hard to know in advance what would constitute counter-evidence. If this review has included some authors who might fall into this category, it has not been with pretensions of ‘proving’ them right or wrong in terms of the broader field in which they locate themselves. The aim has primarily been to assess the role economic internationalisation might have in the outcomes they describe.

One conclusion that emerges from this assessment is that claims about political transformation, insofar as they hypothesise economic change as the main force producing transformation, build on arguments about policy constraint. Some contain interesting and plausible independent propositions. But any connection with internationalisation rests on whether it actually produces pressures for such policy change. This paper has argued that purely economic pressures that are not due to distributional demands are limited. The impossibility of an independent monetary policy and exchange stability under conditions of capital mobility is virtually a truism but it is hard to extrapolate from this to other economic policies. Predictions about policy choice must also recognise that market pressures, as well as often being indeterminate, contain no internal mechanism by which they are translated into policy.

The distributional demands that internationalisation may make more salient and the changes in the preferences of economic groups due to the incentives internationalisation creates, are more determinate. Plausible policy demands by groups privileged by internationalisation range from less costly tax, regulatory and wage structures, to low inflation and increased market access abroad. Such demands may manifest themselves directly through the political process, by political actors anticipating their demands, or as adverse economic outcomes if their policy preferences are not met and investment is withdrawn. This is a relatively strong theoretical argument but there is very uneven evidence of either changing policies or, if policy fails to change, adverse economic outcomes. This suggests that not all political systems are equally responsive to the demands of
particular economic groups and that some are also able to maintain an economically viable set of alternative policies. This variation warrants more attention being paid to points of contingency, such as the scope for international cooperation or differences in domestic institutions, and alternative causal factors. Overall, while we have a theory of why some countries have changed some policies, we are some way from anything other than tentative conclusions about the role internationalisation has played in any given case.

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