



5. Globalization and the need for international cooperation



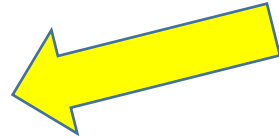
Area &
Global
studies for
International
Cooperation



The United Nations...
Or, the European Union

From anarchy to cooperation... and the role of institutions

International
Markets... plus, IMF
and WB

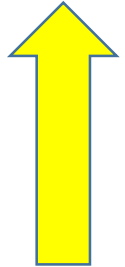


The golden
straitjacket
(neoliberalism)



World Governance
(global federalism)

Economic
Integration

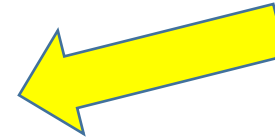


Nation
states



Democracy

Keynes's International
Clearing Union...
Or, the US plus IMF and WB



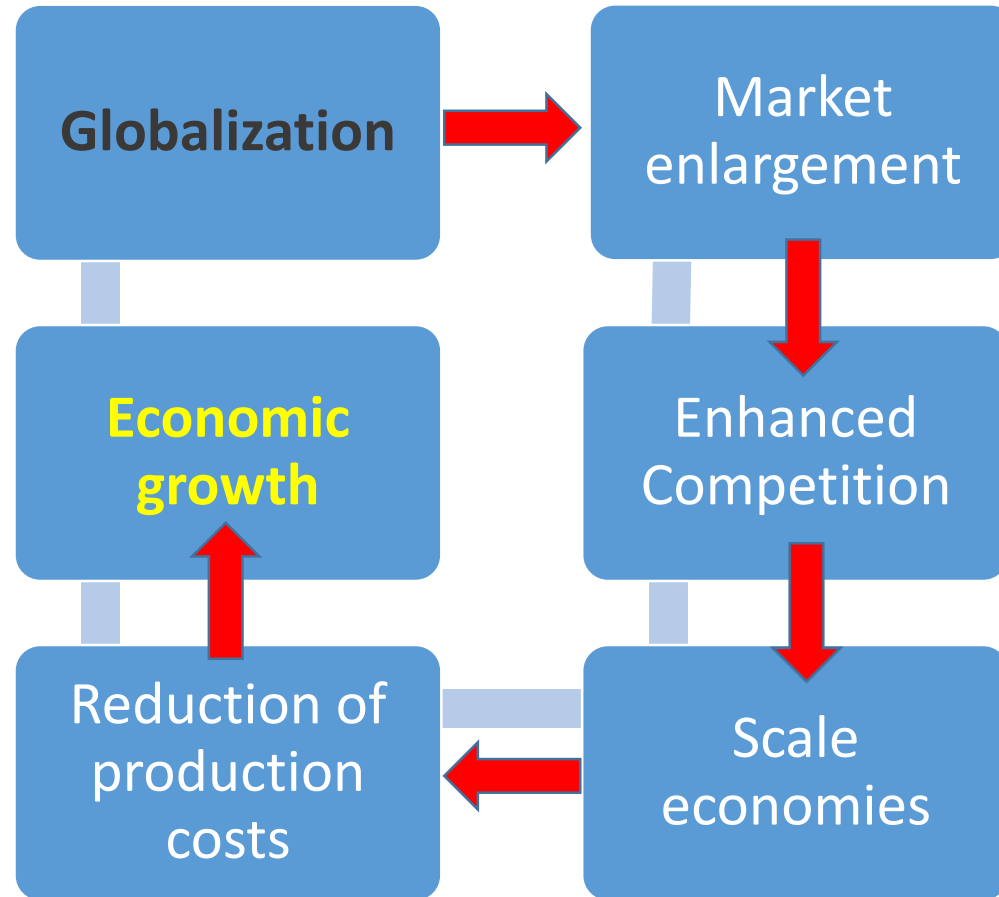
Bretton Woods
compromise



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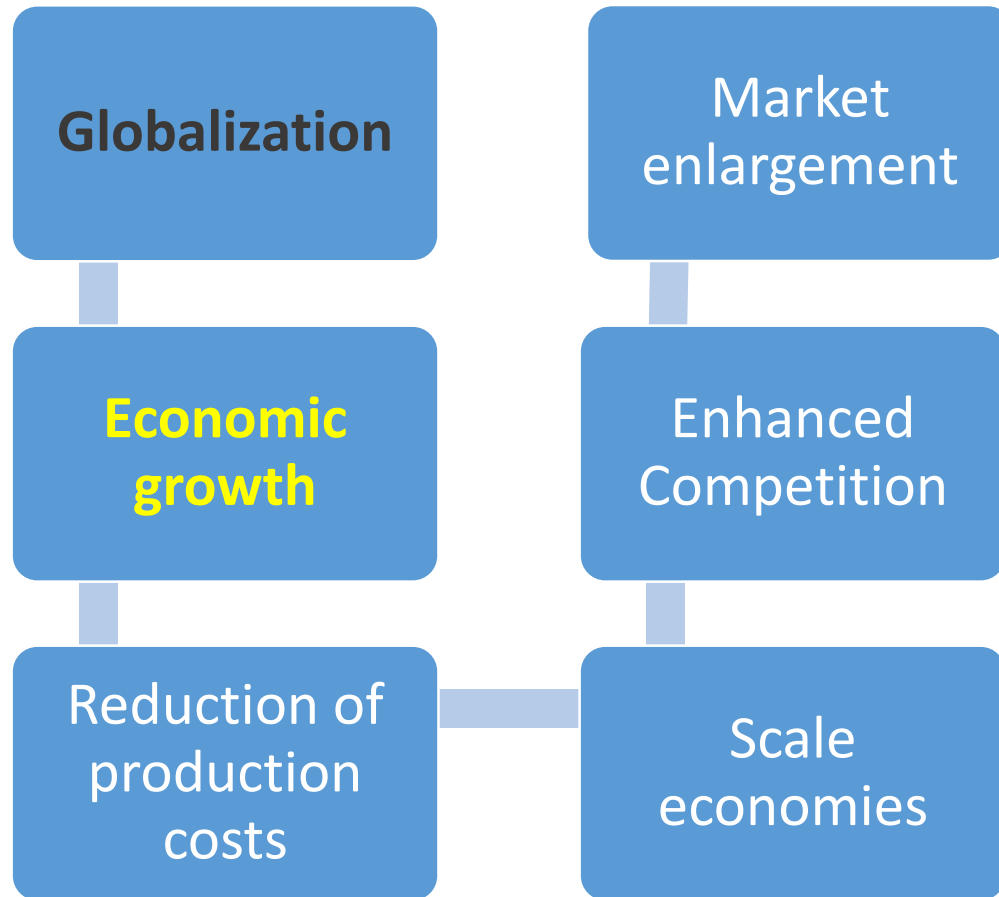


The beauty of globalization





The beauty of globalization



But in practice...

- benefits can accrue only via **cooperative** action (instead of independent policies)

1. **Free riding**
2. **«Inhibiting fear»**
3. **Distribution of gains and losses**





[from Ravenhill
2016, ch. 3]

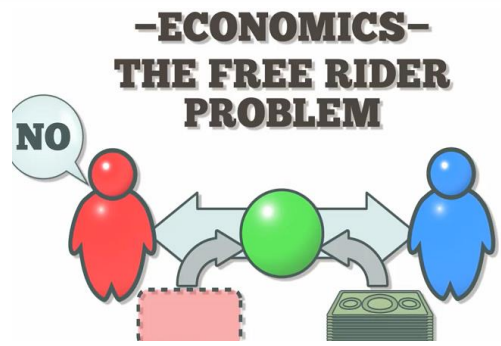


Different types of **problems** associated with the process of global integration call for different **solutions** to address the three typical problems, ranging from the provision of binding rules to facilitating mechanisms.

A strategic interdependence approach (game theory):

A country's choice depends both on its cost/benefit evaluation of the various outcomes and on its expectations regarding the choices of other actors.





Free riding

PRISONER'S DILEMMA		Player B	
	Strategies	Stays silent (cooperates)	Betrays (defects)
Player A	Stays silent (cooperates)	5,5	0,7
	Betrays (defects)	7,0	1,1



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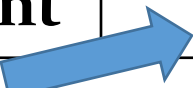


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Dominant strategy 





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Nash
Equilibrium



[None of the players can improve her situation by changing her individual strategy]



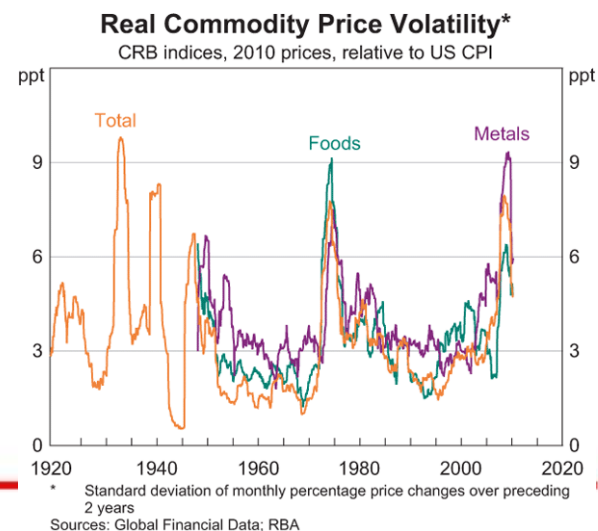


Illustrations

Reciprocal **trade liberalization**: the appeal of the combo open export markets / closed domestic markets

Large domestic markets, less dependent on trade liberalization (influence on world prices)

Collective management of resources: OPEC, and the difficulties of commodity price stabilization.



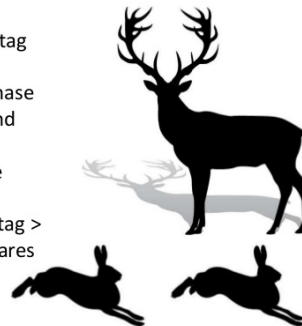


Inhibiting fear

STAG HUNT		Player B	
	Strategies	Stag (cooperates)	Hare (defects)
Player A	Stag (cooperates)	5,5	0,3
	Hare (defects)	3,0	2,2

Game Theory: The Stag Hunt

- Two hunters
- Within range is one stag and two hares
- Both hunters must chase the stag to catch it and share the meat
- The two hares can be caught individually
- The meat from one stag > the meat from two hares



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Illustrations

Uncertainty of costs and benefits linked to **integration** into the world economy.

Increasing **financial liberalization**: fear of “wrong” policies, that may destabilize markets, lead countries to control capital movements, which, in its turn, changes other countries’ expectations and may produce a general retreat from integration.



Less risks, but **less opportunities** as well.





«Where to meet?»

Coordination problems

BATTLE OF THE SEX		Player B	
	Strategies	Stadium	Shopping
Player A	Stadium	2,1	0,0
	Shopping	3,0	1,2





Illustrations

Efforts by developed countries to choose mutually compatible **macroeconomic policies** reflect such games of coordination (e.g. G20 2009, London).

Choice of the **international monetary system** (e.g. the Bretton Woods negotiations).





Free riding plus distributive tensions

CHICKEN GAME		Player B	
	Strategies	Swerve	Straight
Player A	Swerve	0,0	-1,1
	Straight	1,-1	-5,-5

Illustration: who assumes
the global leadership?



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Asymmetric games

CALLED BLUFF		Player B (chicken's game)	
	Strategies	S ₁	S ₂
Player A (prisoner's dilemma)	S ₁	0,0	-3,1
	S ₂	1,-2	-2,-3





Illustrations

Stronger countries take advantage of the other's weakness and shift the burden of cooperation onto **weaker** countries.

Stronger countries are less dependent on the need for cooperation and can free ride. If weaker countries are not in a position to sustain cooperation alone, the **system** breaks down (e.g. Bretton Woods in 1971).

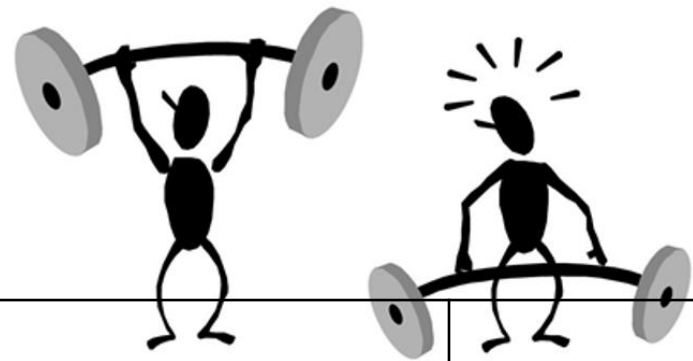




HARMONY		Player B	
	Strategies	S ₁	S ₂
Player A	S ₁	10,10	8,4
	S ₂	4,8	2,2

E.g., the «natural» benefits of free trade according to Nineteenth-century liberal economists





SUASION		Player B (chicken game)	
	Strategies	S ₁	S ₂
Player A (harmony)	S ₁	10,8	8,10
	S ₂	4,4	2,2

An actor perceives the benefits of cooperation to be much above its costs (opportunistic behavior on the part of the weak)



Cooperation without institutions?

Asymmetric games -> **asymmetric** distributions of costs and benefits.

True, games can be **iterated**... but the benefits of cooperation might be too low to overcome the temptation to free ride. Or actors might have troubles in retrieving information.

Hence **a role for institutions** or regimes.



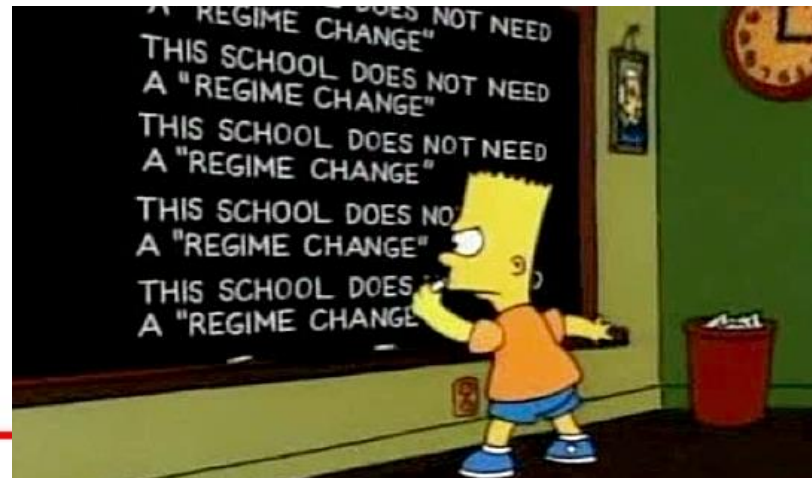


Institutions and regimes

International **regimes**, i.e. “sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actor expectations converge in a given area of international relations” (Krasner 1982)

Principles and norms, **meta-regime**; rules and procedures, regime (Aggarwal 1985).

Institutions = regime plus meta-regime (differently from organization)





The role(s) of Institutions

1. Third-party **enforcement** of agreements (supernational power to monitor, evaluate, and sanction the behavior of its members)
2. Help in crafting **responses** (focal point solutions) to situations characterized by distributive tensions between states (institutions with firmly-established and strong meta-regimes perform this task well, whereas where there the meta-regimes are weak... troubles in the Gatt/WTO negotiations depend on this, and the creation of UNCTAD provides clear evidence)
3. Help in dealing with fear or reluctance to engage in **cooperation** (by enabling actors to reach, rather than imposing, specific outcomes)



Table 3.1 From Problems to Institutional Solutions

	'Free riding temptation'	'Inhibiting fear'	'Where to meet'
Strategic game	Prisoner's Dilemma	Stag Hunt (assurance games)	Battle of the Sexes
Illustrations	Trade liberalization Debt rescheduling	Financial integration Trade specialization	Managing adjustments Multilateral negotiations
Role(s) of institutions	Channel to enforce contracts <ul style="list-style-type: none"> • monitoring/surveillance • sanctioning mechanisms • policy transfer 	Enhancers of co-operation <ul style="list-style-type: none"> • pools of resources • suppliers of knowledge and capacity 	Providers of solutions to distributive conflicts <ul style="list-style-type: none"> • negotiation forums • agenda setting • linkages
Examples of institutional solutions	<i>Monitoring/surveillance:</i> Articles IV and VIII of IMF; Trade Policy Review mechanism WTO <i>'Sanction':</i> IMF Conditionality , WTO Dispute Settlement Body's (DSB) authorization of sanctions <i>Policy transfer:</i> Common Trade policy and Economic and Monetary Union in the European Union	<i>Pools of resources:</i> quota system in IMF <i>Suppliers of knowledge and capacity:</i> WTO (technical co-operation); World Bank; IMF; UNCTAD	<i>Negotiation forums:</i> WTO General Council; Executive Boards IMF and World Bank; UNCTAD <i>Agenda setting:</i> IMF and World Bank staff