

permanent alliances of sovereign states extinguish sovereignty and foreclose key areas for policy discretion as so widely believed?²⁵

Experts in international relations have long debated the impact of international regimes (norms, rules, and institutions) on state behaviour. However, they have been at loggerheads over a much more modest set of claims than those expressed by globalists. Specifically, analysts from the realist tradition contest the liberal institutionalist's claim that international regimes can mitigate the effects of anarchy (a state system in which there is no central authority to keep sovereign states in check), and thus modify state behaviour to forego short-term advantages in exchange for long-term gains. Prominent institutionalists like Robert Keohane claim that once established, multilateral institutions (e.g., the World Bank, the International Monetary Fund, the WTO, the Bank of International Settlements) take on a life of their own, even though a world power or hegemon—in this instance, the US—may have been necessary for their creation.²⁶ Moreover, because of the services provided by international institutions (in particular, reducing uncertainty and the costs of making and enforcing agreements), states have an interest in their preservation. Thus if, as realists claim, the world is dominated by sovereign states, the function of international institutions appears especially pulling. Moreover, the puzzle must remain without solution, says Keohane, *as long as institutions are viewed as standing in opposition to, or above, the state*; the problem can be solved however if institutions are 'viewed as devices to help states accomplish their objectives'.²⁷

Although the role and impact of international institutions are controversial, when viewed in this way, one is struck by the complementarity of realist and liberal institutionalist positions, not their antagonism. Political interdependence does not mean that states trade in their objectives, but that they advance them through power sharing. Whatever their points of disagreement, analysts from both traditions share the view that multilateral institutions cannot compel states to act in ways that are contrary to states' own selfish interests. It may be that as states have become more enmeshed in an expanding web of economic and political ties, the costs of disrupting those ties through unilateral actions have grown. But that is an empirical claim that needs to be tested against specific cases. One may well find that the cost deterrent applies more clearly to the use of military force than to the protection and/or promotion of national economic interests, and more readily to small states than to larger ones. Certainly the proliferation of trade disputes even under a strengthened WTO offers some support for the latter part of this proposition. (Even

²⁵ Many assess this development in normative terms: as 'a good thing', on the assumption that any process or institution which dilutes sovereignty must be good for world peace or world freedom. The Enlightenment thinkers thought along parallel lines, advocating commerce as an antidote to war. See Albert Hirschman, *The Passions and the Interests: Political Arguments for Capitalism Before Its Triumph* (Princeton, NJ: 1977). Such reasoning culminated in Adam Smith's celebrated study, *The Wealth of Nations*, in which he proposed that increasing international trade would eliminate war between nations.

²⁶ See Robert O. Keohane, *International Institutions and State Power* (Boulder, CO: 1989); for a recent contribution to, and defence of, the realist position, which examines the problem of relative gains, see Joseph Grieco, 'Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal institutionalism', in D. Baldwin (ed.), *Neorealism and Neoliberalism: the Contemporary Debates* (New York, 1993).

²⁷ 'International institutions: can interdependence work?', *Foreign Policy*, 110 (1998), p. 84.

as this article is being written, it is hard *to* ignore the preemptory unilateral measures taken by the United States in mid-1999 to protect both its lamb against imports and its genetically enhanced beef exports to the EU.) In sum, prominent institutionalists—like their realist counterparts—continue to stress the central role of the state and, while regarding the end of the Cold War as marking an important shift in the global balance of power, they do not see in the proliferation of international regimes a qualitative transformation in the nature of world politics.²⁸

This conclusion is clearly at *some* remove from the globalist claim that national governments are no longer the locus of effective political power.²⁹ Our brief review of liberal institutionalism's stance on the matter indicates that it is both possible and necessary to go beyond this negative-sum way of understanding international cooperation. We can add to institutionalism's positive conclusion that states cooperate to achieve certain objectives by noting four limitations of the globalist view. First, it overestimates the 'encompassing' quality of international agreements, and underestimates the tenacity of national arrangements as well as the adaptivity of national actors. (Moreover, adaptivity is not one-way; like states, firms have also had to adjust to a more competitive environment as a result of changes in state policies.) To use a parallel from taxation rules, just as the existence of new tax rules does not thereby bring tax-minimising schemes to a standstill in the corporate sector, so there is no reason to assume that the emergence of international rules governing trade and investment will bring activist states and their production-enhancing schemes *to* a standstill. The WTO, for instance, may appear to be crowding out state activism in the domestic arena by seeking to exclude certain forms of government subsidy, but that is likely to have little impact on the new forms of industry promotion and more resonance in liberal market settings where states have traditionally applied themselves to regulatory rather than developmental policies (see the following section).

Second, the long-term survival of international regimes, especially in the economic sphere, appears contingent upon the continued welfare-increasing benefits of cooperation. This is not simply a theoretical postulate on which both neorealists and liberal institutionalists can agree. It is also the perception of leading decision-makers in the field. In discussing the key features of policies directed at promoting international integration, for example, Lawrence Summers, now Secretary of the United States Treasury, recently observed that one major feature 'has been the consistent desire to finesse sovereignty problems by highlighting the national benefits of internationally congenial behavior'. Thus, as Summers points out,

... there is the greatest willingness to cede power to international institutions where there is the greatest technical agreement on what needs to be done and where issues of values are less paramount. Thus, for example, there is more international agreement on questions like air safety standards and bank capital requirements than on questions like tax rules and labor standards.³⁰

²⁸ See Stephen M. Walt, 'International Relations: One World, Many Theories', *Foreign Policy*, 110 (1998), p. 46.

²⁹ See, for example, David Held and Anthony McGrew, 'The end of the *Old* Order? Globalization and the Prospects for World Order', *Review of International Studies*, 24 (1998), p. 235.

³⁰ 'Reflections on Managing Global Integration', paper presented at the Annual Meeting of the Association of Government Economists, New York City, 4 January (1999), p. 10.