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Mercantilism, *Compétitivisme* and the New Role of the State

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Abstract :

Globalisation does not signal the end of the State and the emergence of a universalistic ideal of economic thought. Instead, and notwithstanding its new focus, it highlights a tension that has always existed between universal rules and collective choices made by individual societies. Moreover, States have developed contradictory patterns of behaviour that manoeuvre between liberalism and *compétitivisme*, a modern form of mercantilism which creates new rivalries among States and increases inequalities in the world economy. Since globalisation is here to stay, we need to re-think the way it is regulated. The problem is of an institutional nature, and there are only two possible approaches to regulation. Either the actors themselves will have to deal with the issue of regulation, in which case they will promote the codes of conduct, or the actors will have to negotiate transfers of spheres of sovereignty, in which case regulation will emerge from the common institutions they create The paper, first, presents an historical overview of the debate that has always pitted the two major schools of modern economic thought, liberalism and mercantilism, against each other. Second, using a *triangle of incompatibility,* it analyses the different options offered to regulate the global economic system.

Globalisation is nowadays associated with the elimination of barriers between States, a wide acceptance of the competition principle, and a general support for the values of economic liberalism. The challenge facing nation-states and large international organizations is to establish prescriptive frameworks that legally sanction global economic integration and, in matters involving mutual rights, obligations and responsibilities, replace the approach based on negotiation between individual States with an approach based on universal governance framework.

Taking a linear representation of a world unified by market forces, that process is oriented toward an ideal-type of economic well being, assuming competitive conditions are sufficiently entrenched for markets to perform their regulatory functions. While States may establish new prescriptive frameworks that are consistent with the current changes in the world economy; they also act as sovereign powers in the international arena, and as mediators between the interests of divergent social groups within the territories over which they have jurisdiction. As Theda Skocpol has demonstrated, this provides them with a dual role — they must deal simultaneously with social groups and other States —. States therefore find themselves in an extremely complex position, torn between two systems of demands and constraints: those associated with the implementation of

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universal prescriptive frameworks adapted to globalisation, and those associated with defending the national interests of the countries they represent[1].

This problem, which is by no means new, is rooted in modern liberalism. While the post-war order constituted the first real attempt to deal with the problem, it is no longer suited to deal with its contemporary manifestations, since globalisation has changed the rules of the game. States have completely internalized globalisation in their public policies. States are the force behind globalisation, but are vulnerable to its effects. Consequently, they have developed contradictory patterns of behaviour that manoeuvre between liberalism and *compétitivisme*, which is a modern form of mercantilism adapted to the opening up of markets. Thus, a new competitive dynamic has arisen, involving both the private sector and the State. It has had detrimental effects, of which the main two are to create new rivalries among States and to increase inequalities in the world economy.

These are the issues that we intend to examine in the following text. To do justice to the topic, it was necessary to take an historical approach, and to deal with it in relation to the debate that has always pitted the two major schools of modern economic thought, liberalism and mercantilism, against each other.

Liberalism and mercantilism

For as long as the world has been divided into sovereign States, prosperity has been closely associated with security. Pamphleteers and essayists of the Renaissance were the first to discuss this and related topics. In applying Aristotelian economics to the concept of the nation, they founded a "political economy" that lasted right up to the Industrial Revolution. They did not completely define the contours of this political economy, though they articulated the concept clearly enough for it to justify the systematic use of political power for economic purposes, and the use of economic power for political purposes. Political economy in this period was more an art in the field of economic policy than an organized body of doctrines. Its focus was national wealth and power. It freed merchants and princes from religious constraints, which they would replace with moral obligations and constraints based on the classical principles of harmony between economics and politics[2]. In the nineteenth century, authors like Schmoller associated the system derived from political economy with the formation of States; others, such as

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1 I have tackled this seemingly intractable problem in several research projects, especially in my analysis of the Multilateral Investment Agreement (see "Globalisation et nouveaux cadres normatifs : le cas de l'Accord multilatéral sur l'investissement", *Géographie, Économie et Société*, Vol. 1, No. 1, May 1999, pp. 49-95 [co-authored with Dorval Brunelle], and, more recently, on the link between investment and competition, see "Globalisation, investissements et concurrence. La voie du régionalisme : le projet des Amériques", [co-authored with Dorval Brunelle and Michèle Rioux], forthcoming, and available online at the following Web site: http://www.gric.uqam..ca). The problem has not been resolved conclusively, and the present paper forms part of the ongoing research.

2 For lack of space, I avoid the debate on mercantilism. I raise only the essential issues, while acknowledging, as do most authors examining the question, the bellicose and autocratic nature of mercantilism in this period, and the huge chasm that separated its general principles from the way it was practised.

Marx, associated it with the rise of capitalism. Both authors linked the system to a specific historical period: the pre-modern period. This was simply a way of acknowledging that it had been a necessary stage, but that its time had passed. Enlightenment liberals would take a different approach: they maintained that the system was harmful, not only because it went against Reason and Natural Law, but also against the Natural Order underlying human relations. Adam Smith would be the first to clearly formulate the nature of these relations.

Smith reproached the "mercantile system", the name he gave to this system, for confusing (i) national wealth with monetary accumulation, and (ii) national interests with mercantile interests. In addition to his critique of the monetary conception of wealth as advanced by mercantilists, Smith attacked both collusion between merchants and government officials — "crony capitalism", as Joseph Stiglitz calls it — and the combination of wealth and power symbolized by gold accumulation, nowadays stated in terms of trade surplus. This critique of the mercantile system, or of "mercantilism", the term henceforth employed by Schmoller, is still valid. However, there can be no doubt that it would not have attracted that much attention if Smith had not also gone out of his way to demonstrate the superiority of liberalism over every other economic system in terms of its ability to create wealth and to harmonize interests among individuals and nations. Yet, Smith maintained that for liberalism to succeed two conditions had to be met: on the one hand, the principle of economic freedom had to be accepted universally and, on the other hand, competition, which he portrayed as an invisible hand, had to serve as a regulator of individual interests. It was a powerful argument. On the one hand, applying the competition principle meant keeping the State out of the economic sphere and reducing its role to a protector of the economic contract, since competition would ensure smooth operation of markets and harmonization of interests. On the other hand, international trade, and later the theory of comparative advantage, became unifying forces in a world that, in spite of political divisions, was meant to form a single economic community once all the artificial barriers raised by States had been removed.

By reconciling individual interests with collective interests, and the interests of individual nations with those of all nations, the new political economy was able to satisfy both universalistic philosophers championing the principles of liberty as well as merchants and industrialists seeking economic freedom and new markets. Thus, political economy seemed to make the more mundane realities of capitalism, now liberated from the tutelage of the State, approximate the modern ideal of a world unified and pacified by trade. Also, once trade had been defined as the organizing principle of life in society, it was easy to establish a link between social progress and economic progress, between security and prosperity. Ultimately, laissez-faire policy and its corollary, free trade, seemed to be the only reasonable path to follow. Mercantilism, by contrast, had come full circle: no matter what form it took, it was seen as antithetical to both material progress and the security of nations.

In the inter-war period, the Austrian school – especially Mises, Hayek and Röpke – developed this argument more fully. These authors treated the crisis and the "disintegration" of the world economy as a crisis of civilization whose origins could be traced to the gregariousness of nations and the abandonment, during the First World War, of the principles of liberalism. While some observers, like Röpke, interpreted the nineteenth century as the golden age of liberalism, the fact remains that the old mercantile system was not yet dead and buried. Actual social conditions and the new international rifts among nations were a far cry from the ideals of liberal doctrine. The nineteenth century was, to be sure, the century of liberalism; but it was also the century of socialism and, above all, of nationalism. Nationalism, like the "mercantile system" that preceded it, had its own historical trajectory and took many forms. However, we are not concerned here with the history of nationalism; we are concerned with its economic aspects. Doctrinaire economic nationalists created the impression they were creating an alternative political economy centred on the concept of nation. In so doing, they cast the State in a new light and presented economic liberalism with a veritable intellectual challenge. Very few, however, would take this challenge seriously — John Stuart Mill being one of the exceptions, though his interest was incidental.

From economic nationalism to the Welfare State

Friedrich List, in *The National System of Political Economy*, would advance the debate on two fronts, combining observed facts, theoretical considerations already raised by other writers and "inspired" hunches (as Smith had done in *The Wealth of Nations*). First — and quite deftly — he drew a lesson from history: free trade is beneficial to nations only when it is conducted among equals. Stated differently, free trade is a good idea, but only when participating nations have attained a similar level development, especially industrial development, the apogee of human progress. At the same time, and more constructively, he employed the nation as the central organizing concept for his system (a nation consisted of a community, a territory and an economy, the trinomial of German geopolitics, as Braudel would say[3]), and he portrayed the State as the guarantor of the system's unity, prosperity and security.

Shifting the emphasis of economic analysis of markets towards production, List introduced a second concept, that of "productive forces". For List, the creation of wealth, and *ipso facto* a nation's development, stem from the development of productive forces. (Marx held a similar position, though he was very ill at ease with List's arguments). If it is one of the functions of the State to look after a nation's development, then, it follows that it is also up to the State to mobilize the productive forces required to build the nation. With this line of reasoning, List was restoring his faith in State intervention (at least in industry, since agriculture already received special treatment in his system). "Infant industries" protection against foreign competition must be sustained, but still provisional and "educative"; it was designed to give the more needy nations enough time to bring their productive capacities up to par with those of the more advanced nations[4].

List's system has been criticized on several counts. First, the concept of nation that he uses is trans-historical (as is the trade concept in Smith's system). Second, since List

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[3] Fernand Braudel, *Les ambitions de l'histoire*, Paris, De Fallois, 1997

[4] See also, Eric Helleiner, "Economic nationalism as a Challenge to Economic Liberalism. Lessons from the Nineteenth Century", TIPEC, Working paper, 02/03, on line

defined himself as a liberal, and as an advocate of economic freedom, he urged the State to exercise moderation and prudence in its intervention. Third, the protection should be temporary and transitory. This would prove to be very different from the approach taken by his epigones. The fundamental question at the heart of his system, and indeed of all national systems, is: to what extent should the State intervene, and in what circumstances should it dismantle protective barriers? However, this is not my main concern here. Instead, I wish to emphasize three ideas in List's system: (i) the State is re-legitimized, both as regulator and mediator of individual interests, and as protector of the public interest, though the frame of reference is strictly national; (ii) trade protectionism is no longer spurned but viewed as one of several instruments available to the State in attaining specific objectives; (iii) List replaces the classic concept of the international division of labour with another concept, the world economy, or, to be more precise, the international economy, which consists of nations' economic spheres interacting with one another. A set of interacting economies generates specific hierarchies and asymmetries, which are then either reinforced by free trade or corrected by protection and State's activism.

From the second half of the nineteenth century to the Second World War – and even following the war, with the dependency theories of Prebisch and others – these three ideas provided the basis for economic nationalism. In the inter-war period, economic nationalism, heightened by corporatist doctrines and Darwinian theses on the survival of the species as applied to geopolitics, would ultimately replace economic liberalism, with the tragic consequences of which we are all aware. With State logic prevailing over market logic, the debate within liberal thought shifted. It opposed those for whom a return to "normalcy", that is, a return to prosperity and peace, meant restoration of *laissez faire*, free trade, and hence competition, and those for whom, a return to normalcy required a more rational analysis of the system's problems. For the latter group, the problems encountered were inherent in the liberal system itself, while for liberals they stemmed from aberrations in the system. For liberals, it was not the existence of the liberal system itself that was at issue, since this system had largely demonstrated its superiority — as Keynes would frequently point out. Rather, the system required proper analysis and corrective action.

The debate would come to a head in 1938, during the Walter Lippmann conference in Paris. The conference was held one year after the publication of Lippmann's book, *The Good Society*, and two years after the publication of Keynes' *General Theory*. It would pit liberals against neo-liberals, that is, the disciples of Keynes against those of Mises. Important for several reasons, the conference sealed the split in liberal thought between dogmatic advocates of competition and pragmatic interventionists. The former would later form the Société du Mont Pélerin, while the latter would inspire post-war public policies.

The problems of unemployment and the unjust distribution of wealth, both rooted in the unrestrained exercise of economic freedom, as Keynes remarked in the concluding notes to his *General Theory*, would be resolved by the Welfare State. William Beveridge formulated the founding principles of this solution in his two White Papers, one of which was on employment and the other on social services. However, rebuilding the world economy required a different approach, which would include: (i) ensure the individual and collective economic security of States, the absence of which was thought to be the principal cause of trade wars, and (ii) accept economic freedom — supposedly the source of a nation's material progress and prosperity. In other words, it would be necessary to avoid repeating past errors, and to link the security of nations to their economic security. At the same time, economic security needed to be linked to open access to world markets and resources. To realize these goals, it was no longer possible to rely on the morality or rational behaviour of States. Rather, it would be necessary to link States together through properly negotiated agreements that were legally binding. As one writer of the period remarked, it amounted to nothing less than the "economic disarmament" of States[5].

The role that the United States played in building this new international order — particularly that of the State Department, whose director then was Cordell Hull — was decisive. Negotiations among the Allies, though extremely difficult, resulted in a set of agreements providing for duly mandated multilateral institutions designed to introduce collective discipline to their respective jurisdictions, with the whole process supervised by the United Nations. However, one of its major objectives, creating a world unified by trade, was attained only partially, since the Cold War divided the world into two rival economic and political systems.

The new international order (NIO) was created on two levels simultaneously, the national level and the international level. In principle, these two levels complemented one another. Since much has already been written about the NIO, I will comment on it only briefly.

First, as Graz observed[6], it constituted the first real attempt — at least on a very large scale — to reconcile liberalism and interventionism on the one hand, and multilateralism and national autonomy on the other hand. In fact, it was on the basis of a double compromise that the NIO was created — or "planned" as John Gerard Ruggie put it[7]: the regulatory action of the State tempered economic liberalism, while the regulatory action of international economic co-operation, in turn, tempered the discretionary power of the State.

Second, the NIO is State-centred. There are two explanations for this: (i) in spite of certain proposals made by Keynes and others, market regulation has never been conceived outside of a national frame of reference. It is States who are supposed to ensure that markets are supervised and functioning properly and, by appealing for good governance, guarantee the stability of the international economic system; (ii) though States give mandates to international economic institutions, they must still play a

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5 While the expression may now seem like hyperbole, and even elicit derision, it was used openly by one of the artisans of the post-war order, James T. Shotwell, in his book, *La grande décision*, New York, Brentano's, 1945.

6 Jean-Christophe Graz, "L'économie politique du commerce international et les origines cachées du 'nouvel agenda' de l'OMC", *Économies et Sociétés*, Série Relations économiques internationales, P. No. 35, 8/2000, p 164.

7 John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Post-war Economic Order", *International Organization,* Vol. 36, No. 2, Spring 1982, pp. 379-415.

supervisory role and ensure the orderly conduct of the international economic system or, put differently, they must manage the economic interdependencies.

Lastly, while the legal equality of States is recognized in law, very few of them manage to retain effective control and autonomy, that is, to control their policy instruments and to attain the objectives they set for themselves[8]. In other words, control and autonomy refer to a State's ability to make strategic choices. This problem would prove to be greater for developing countries, giving rise to the mutual lack of understanding that has characterized the North-South debate from the early post-war period to the present. However, it has also arisen in industrialized countries, and is more apparent today than ever. Indeed, there are now two sets of problems that States confront in the international system: traditional problems associated with the system's inequalities and hierarchies, and problems in maintaining effective control and autonomy.

The post-war order was built on the premise that it was possible to separate national markets from international markets. Based on this premise, many believed that it would be possible to simultaneously open up markets and pursue full employment. With the advent of globalisation, this premise no longer held up, and the ability of States to make strategic choices – at least choices that could be envisaged within the parameters of a Keynesian framework – was once again questioned. In 1945, the problem was latent; but in the 1970s, with the abandonment of fixed exchange rates and the resulting free movement of capital, it was expressed more openly. Let’s now put this problem into perspective.

From the Welfare State to the Competitive State

The problem is now considered to be of vital importance. For a long time, it did not attract much attention. Of course, it was raised by developing countries (increasingly marginalized in the new world economy, as the Haberler Report would report in the late 1950s), but it was eclipsed by new economic growth resulting from Keynesian policies and by the Cold War. Economic growth seemed to confirm the thesis that it was possible to reconcile economic freedom and national collective choices. Moreover, the Cold War climate united the western bloc around the United States and shared democratic and liberal values. We must nevertheless nuance these observations, since dissenting views arose — especially in Europe — proposing an alternative approach based on regional integration. The argument was as follows: on the one hand, economic integration would serve as the foundation for political integration through which European countries would collectively assume their proper role in a world then divided along East-West lines; on the other hand, the gradual transfer of part of their sovereignty to supranational institutions would improve regulation of economic activity and thus orient economic integration towards common objectives. We will return to this issue later.

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[8] I am employing a distinction used by Benjamin J. Cohen in his work, *The Geography of Money* (Ithaca, 1998, Cornell University Press). The way I interpret his distinction is mine alone.

The European approach to economic integration has experienced numerous difficulties and recurrent crises, and has not always fulfilled its objectives. Nonetheless, its political and social objectives go beyond the liberal approach to integration, which is based solely on trade liberalization. By establishing common standards and rules, it goes further than the basic intergovernmental co-operation model. Despite claims that its impact is limited and while it is true that European countries too must deal with the imperatives of competition and globalisation, the European initiative could serve as an example for international economic institutions, thereby helping them to solve their current impasse.

Be that as it may, starting in the 1970s — a decade of crisis in the Welfare State, both in the developed and the developing countries — Keynesian economic policies were recast, then replaced by neo-liberal policies[9]. Developing countries, hurt by the debt crisis and by an import substitution model that proved to be a dead end, were the first to implement these policy shifts. The move toward neoliberalism rapidly won over the developed countries as well, and with the break-up of the Soviet bloc eventually had an impact almost every country in the world. The authors of the first WTO report could confidently declare that compliance with the doctrines of liberalism was now virtually universal[10]. Neo-liberalism was harsh, but this was 1996 and the Washington Consensus was in vogue[11].

What characterized neo-liberalism was not that it succeeded in placing the principles of liberal governance and competition on the agenda again, but rather that it brought a new dimension into play — the global dimension[12]. Neo-liberalism had three important features. First, since firms now operated in markets that were global, authorities monitoring competition had to examine the misuse of market power within the framework of international as well as national markets. Second, there was now international rivalry for markets. This meant that national competition policies had to place increasing emphasis on the ability of firms to compete, and shift their focus from consumers to producers, since their objective was to ensure the viability of firms on international markets. Third, if markets were now global, so too was competition. States could no longer abide by the rules of macroeconomic policies alone, even though these policies were well entrenched. They were also obliged to co-ordinate their actions to

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9 In a curious historical turnaround, the term "neo-liberalism" has now acquired a meaning that is diametrically opposite to its meaning in the inter-war period. However, changing the parameters of economic policy took many years, and the nature of the changes were more qualitative than quantitative, at least as regards the State's influence in economic matters.

10 OMC. *Rapport annuel*, 1996, p. 5.

11 The Mexican crisis of 1994-95 was the first sign of the upcoming dangers in trade liberalization. However, since it was rapidly contained, no one considered the problem overly important. It was only from 1997 on, with the spate of financial crises, that the problem of the distorting effects of trade liberalization in a context of capital mobility would begin to be taken more seriously.

12 For further discussion on this topic, see Michèle Rioux, "Globalisation économique et concurrence", *Études internationales*, Vol. XXXIII, No. 1, March 2002, pp. 109-135.

ensure that competition remained vital. This meant introducing normative governance frameworks or codes that would be accepted internationally.

The application of the new free-trade doctrine resulted in the dismantling of regulation at the national level and the freeing of markets from the constraints of public policy. But it also led States to adopt a new co-operative model based on codes of conduct — a major innovation whose full impact is still difficult to assess. The aim of this model involved nothing less than eliminating the approach adopted just after the war. The approach employed in the immediate post-war period had tried to overcome the limitations inherent in reconciling different sets of national laws, namely, promoting negotiation among States of *mutual* rights, laws and responsibilities. The new model employs, instead, a more consensual approach based on negotiated *universal* standards, in which all parties are required to comply in the same way. At the same time, the widespread implementation of the competition principle, combined with the pressures of competitiveness, has an additional effect: they make States aware that it is complicated to defend national interests while their economies compete in the world economy. Thus, it is somewhat paradoxical — though not surprising — to see governments taking a pro-market, pro-competition, pro-free trade position, while adapting public policies to deal with the constraints of competition and systematically setting up strategic partnerships involving not only the public and private sectors but also other States.

Partnerships between States and firms form quite naturally, and were easy to justify, since the need to compete is as important to States as it is to firms. In fact, the numerous grey areas and deficiencies of the multilateral trading system revealed that the multilateral trading system already included these types of partnerships. However, it is not so much this aspect of the problem that merits our attention, but the conduct of States themselves. States have completely “internalised” globalisation. Thus, competitive integration of the world economy was transformed into a new type of security dilemma involving States in new types of alliances, namely, business partnerships between States, and between firms and States, with the purpose of improving national autonomy in a globalised economy[13].

It is not easy to sort out the terms of the various partnerships, since they take different forms in different countries, and evolve according to the requirements of each specific situation. Also, business logic differs from State logic. Lastly, there can be significant differences between States in terms of their competitive advantages and negotiating power. In spite of these limitations, these partnerships gave rise to a new competitive dynamic. In their celebrated work, *Rival Firms, Rival States,* Stopford, Strange and Henley characterize this dynamic as "triangular"; Michèle Rioux calls it "systemic". Rather than accepting the alleged disempowerment of the State[14], this

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[13] As a sign of the times, we are witnessing a return in strength of realists in international relations theory. See especially Robert Gilpin's book, *The Challenge of Global Capitalism. The World Economy in the 21st Century,* Princeton, Princeton University Press, 2000,

[14] See L. Weiss, *The Myth of the Powerless State*, Ithaca, Cornell University Press, 1998.

dynamic placed the State on an equal footing with the other stakeholders in globalisation. As a willing partner in a competitive undertaking, the State has been transformed. It is now appropriate to call it the Competitive State[15].

The new behaviour of the State has not yet been theorized, and perhaps it is a good thing. Nevertheless, certain theorists on the multinational firm, such as John Dunning, or on nations' competitiveness, such as Michael Porter, have already done part of the groundwork. But their inroads are tentative. In fact, their eclectic and empirical methodology is embedded in liberal economic thought; it does not transcend it[16]. What I call *compétitivisme* – once called the art of politics – is a practice judged primarily on the basis of the results it produces and defined in an *ad hoc* manner with regard to its objectives. Aside from its inevitably protean character, *compétitivisme* has two other traits.

First, it indicates that the concept of the competitiveness of nations has replaced that of comparative advantage. Heavily criticized by liberal economists, especially Krugman[17], who claimed that it was irrelevant, competitiveness has nonetheless been adopted by States, beginning with the United States and the European Union[18]. The indices employed to measure the competitiveness of nations, for example those employed in the *Global Competitiveness Report* and the *World Competitiveness Report*, are now indispensable. In its broadest definition, the concept measures the ability of a nation to deal with international competition, and consequently its ability to create the conditions likely to generate growth in a world open to international competition. Thus, anything likely to influence investor decisions and attract international investment comes into play "upstream", while all that is likely to improve the competitiveness of "national"

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15 As with my discussion on the neo-liberal parameters of economic policy, it is important to avoid oversimplification. A more appropriate focus would be to redefine the functions of the State. While the theoretical debate on the nature of the State in the age of globalisation remains open, it is still possible to speak of a rupture in the introversion characterizing post-war economic policy. For a good overview of the debates, see, for example, G. Garrett, "Global Markets and National Politics: Collision Course or Virtuous Circle", *International Organization*, Vol. 52, No. 4, pp. 145-177.

16 In fact, these authors are generally very aware of the problems that this new interventionism raises, as Paul R. Krugman and others quickly realized. After arguing for a time in favour of "prudent interventionism", Krugman expeditiously reversed his position. So too did Porter, in spite of the fact that he ultimately surrendered to prevailing trends and replaced "competition" with "competitiveness" in his diamond of national advantages.

17 Paul R. Krugman, "Making Sense of the Competitiveness Concept", *Oxford Review of Economic Policy*, 1996, vol. 12, No. 3, pp. 17-25. See also the excellent though dogmatic book by Douglas A. Irwin, *Against the Tide. An Intellectual History of Free Trade*, Princeton, Princeton University Press, 1996.

18 David P. Rapkin and William P. Avery (eds.), *National Competitiveness in a Global Economy*, Boulder, Lynne Rienner, 1995; see also the 1993 White Paper of the European Union, *Croissance, compétitivité et emploi*. For a good overview of the debates, see the text by Alain Nurbel, *Dans quelle mesure la compétitivité des nations est-elle un concept pertinent ? Controverses, perceptions nationale et mondialisante de la qualification de la nation en tant que facteur de compétitivité des firmes*. Available on-line. On the concept of structural competitiveness ("*compétitivité structurelle*"), see the OECD study headed by François Chesnais: *La technologie et l'économie. Les relations déterminantes*, Paris, OCED, 1992.

enterprises on international markets comes into play "downstream". Consequently, the State does more than simply regulate economic activity; it also promotes economic activity in three ways: as a seller of a marketing product, the nation's economic sphere; as a purchaser of a growth factor, international investment; and as a rallier of energies — those of the nation[19]. This is reminiscent of List's approach, though revised and corrected in the light of the new limitations imposed by globalisation[20].

Second, it signalled the emergence of new forms of commercial diplomacy. New diplomatic services, working closely with the business community, sought to establish strategic alliances. They were expected to innovate in three areas: (i) deploying foreign commercial interests more effectively by securing and broadening market access; thus, the agreements they concluded were very broad and extended to new fields such as investment, tax policy, government procurement, administrative standards and services; (ii) helping resolve trade disputes and other problems of mutual concern, such as cross-border issues (the circulation of individuals, immigration, economic crime, etc); (iii) broadening alliances that not only created communities of shared values and interests, but also promoted more comprehensive integration of the economies involved; the alliances were designed not only to improve countries' positions on international markets, but also to create ties — economic, normative and diplomatic — that reinforced each other. Thus extremely ambitious projects were initiated, including the Free Trade Area of the Americas (FTAA), the Euro-Mediterranean Partnership (Euromed) and Asia Pacific Economic Cooperation (APEC).

The proliferation of so-called "second generation" bilateral and regional trade agreements was without doubt one of the most visible aspects of this new diplomacy. What surprised many observers was that the race to conclude these agreements involved developing countries as well as industrialized countries, small nations as well as major powers. There have been many debates about these agreements, especially their effects on the multilateral system and on the structure of the world economy. The debates remain deadlocked. On the one hand, there are those, like Baldwin, who felt that the agreements — serving as both an institutional laboratory and a lever — would create a domino effect, extending the sphere of negotiations and accelerating trade liberalization; on the other hand, there are those, like Bhagwati, who claimed that the agreements would create tensions in the multilateral system, placing small nations in a position of asymmetrical competition, with the threat of a world divided into rival economic blocs emerging once again. In reality, the agreements neither complement nor compete with multilateralism. However, by combining market autonomy and State autonomy, they form part of a new competitive and institutional dynamic that has been established on the fringes of the GATT/OMC multilateral trade system.

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19 Charles-Albert Michalet, *La séduction des Nations ou Comment attirer les investissements*, Paris, Economica, 1999

20 See Eric Helleiner, "Economic nationalism as a Challenge to Economic Liberalism? Lessons from the 19th Century", *International Studies Quaterly*, Vol. 46:, No. 3, 2002, pp. 307-329.

From "compétitivisme" to a New Economic Order?

Compétitivisme in its current form poses a serious theoretical challenge to liberal economic doctrine. Many are openly questioning the effectiveness and relevance of the liberal reforms and policies advocated by major international economic institutions. It is not only developing countries and the anti-globalisation movement who are raising these questions, but also major powers and distinguished economists. Furthermore, there is visible tension within international institutions, as recently demonstrated in a lively debate between Kenneth Rogoff and Joseph Stiglitz regarding the latter writer's recent work, *Globalisation and its Discontents*, which recently caused quite a stir in neo-liberal circles. While Stiglitz, quite correctly, draws on Keynes to put international institutions back on the right track, times have changed. Although there is a need for fresh approaches, it is not possible to deal with the problem raised by Graz — of the reconciliation between liberalism and interventionism, and between multilateralism and national autonomy — in the same way as fifty years ago. Today, we must take into account not only globalisation and its deleterious effects on societies, but also the dangerous obsession with competition (as Krugman would put it) that now holds sway among all States.

In this regard, four trends merit consideration: (1) with the onset of globalisation, enterprises have acquired very broad autonomy in decision making, with extended rights and authority that are unprecedented; (2) the new strategic partnerships have a lot going for them, but they are not democratic; (3) States are increasingly combative in their efforts to open up markets and support their own firms; however, in the process they usually infringe on people's fundamental rights and entitlements; and (4) there is a triple phenomenon that corroborates Susan Strange's thesis as developed in her recent work, *The Retreat of the State*: a) an upward shift in power, from weak nations to strong nations; also, power is expanding beyond national borders, becoming either global or regional; b) there is a lateral shift in power, from nations toward markets; and c) some of these powers are evaporating, in the sense that no one is able to exercise them.

The anti-globalisation movement is constantly denouncing these trends. While it is possible to challenge some of the movement's positions, at least it has the merit of demystifying current trends in globalisation, of censuring the dangerous complicity between governments and firms that belies their pro-competition rhetoric, and of raising the issue of democratic choice at levels other than the national level[21]. However, NGOs and civil society do not have a monopoly on proposals for regulatory approaches. We should not ignore the many other initiatives and proposals by governments, international institutions, private companies, professional associations, consultancy firms and even forums such as those held in Davos and Montreal. That said, the positions that these groups and institutions take are extremely modest, and often avoid issues such as the sovereignty of States or the new autonomy of markets. Instead of focusing on the public interest or principles of public law, they tend to place their faith in the actors themselves,

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[21] Several new approaches to democratizing the international community merit discussion, especially those advocated by David Held in *Democracy and the Global Order* (Stanford University Press, 1995).

who, they hope, will abide by principles of good governance and self-regulation. They also have a predilection for codes of conduct, of which there is a rapidly growing number, but whose efficacy has never really been demonstrated.

How can we untangle this problem? In a brilliant article published by the *International Herald Tribune*, and reproduced in the August 16, 2002 edition of *Le Monde*, Francis Fukuyama clearly identifies the crux of the problem. The article deals with the disagreement between Americans and Europeans over the issue of democratic legitimacy in western civilization (understood in a broad sense). It deals with the issue from the standpoint of military security alone. In the article, it is easy to discern the author's thesis on the end of history, and he should of course have taken economic questions a little more seriously instead of dismissing anti-globalisation critics so easily. But this is not the issue of primary concern to us.

For Fukuyama, the end of history was supposed to mark the triumph of western values and institutions, and the vindication of liberal democracy and market economy as the only viable option. However, this view can not be substantiated, since: "an immense gulf emerged between American and European perceptions of the world, and the idea that they shared values was now gradually unravelling". In fact, Fukuyama claimed, disagreements in transatlantic relations did "not pertain to the foundations of liberal democracy but, rather, to the limits of democratic legitimacy". From the American standpoint, "no form of democratic legitimacy exists beyond the constitutional and democratic nation-State", and international institutions have legitimacy only because it has been conferred upon them through contracts with sovereign States. From the European standpoint the opposite was true: "the democratic legitimacy of an international community is much greater than that of any nation-State acting individually". Fukuyama notes further that, while "this international community is not always actualized in a single, concrete, constitutional and democratic world order, it can confer legitimacy on existing institutions, which are then considered to embody it in part".

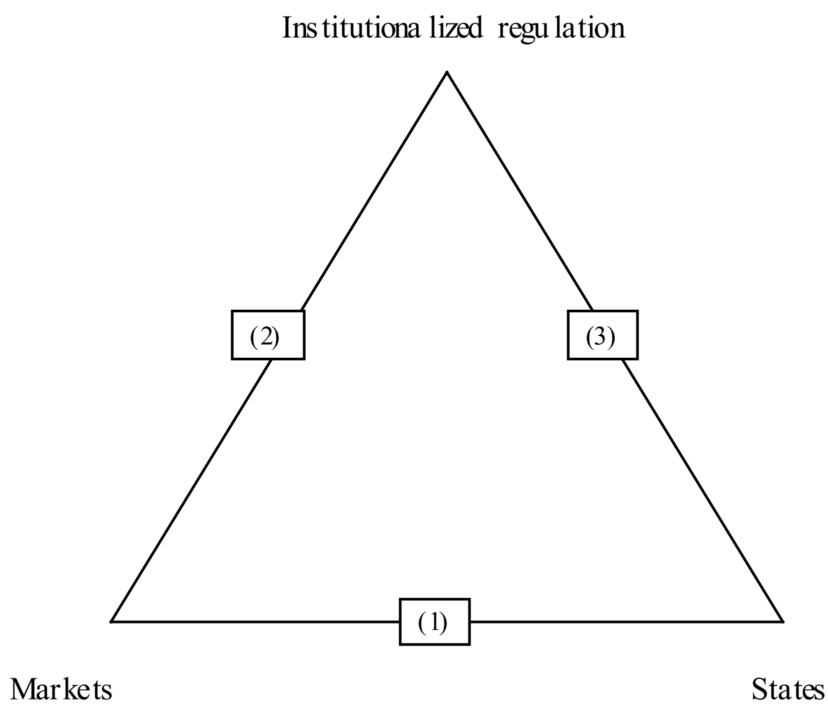
While the role of international institutions affects the dispute between Europe and the United States, it is also central to disputes surrounding the FTAA — though we need to make due allowance for the differences between the two cases. The aim of the FTAA, which is supported mainly by the United States, is to integrate the entire continent on the basis of economics, democracy and shared values. For the United States, continental integration requires, on the one hand, liberalizing trade and signing a comprehensive agreement and, on the other hand, creating a community of democracies, though the countries in this community would preserve the autonomy that derives from their sovereignty. All countries in the Western Hemisphere joined the FTAA, and for almost identical trade reasons. However, a group of countries, that includes Canada, intends to promote its own values when new institutions are created in the future. Another group that includes Brazil advocates the creation of institutions with exclusive powers, and of mechanisms to redress economic inequities. This group could eventually take European institutions as their model. There are explicit tensions with the ranks of the FTAA, even though current negotiations have yet to deal with the issue of institutions. It is still unclear whether or not they will actually deal with this issue.

No matter what happens, if the problem is indeed of an institutional nature then, as Fukuyama indicates, there are only two possible approaches to regulation. Either the actors themselves will have to deal with the issue of regulation, in which case they will promote the codes of conduct, a model advocated by liberals, or the actors will have to negotiate transfers of spheres of sovereignty, in which case regulation will emerge from the common institutions they create.

The triangle of incompatibility in international co-operation

We have analysed the above problem elsewhere, using what we call the triangle of incompatibility in international co-operation[22]. The triangle of incompatibility, inspired by Mundell's triangle, is based on the hypothesis that international economic relations are caught in a double bind: on the one hand, they are subject to constraints that derive from the political division of the world and, on the other hand, to those that derive from the private production of wealth. Markets, States and institutionalized regulation form the three corners of the schematized triangle in Illustration 1 below. Only two of the three corners can be obtained at the same time, so a choice must be made. In each approach, something must be given up, either autonomy or institutional stability.

Illustration 1. The triangle of international co-operation



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22 "Globalisation, investissements et concurrence", *op. cit.*

In this type of conceptual universe, regulating the practices of public and private actors allows for three possible options:

(1) The first option is based on the premise that public and private actors are acting autonomously. Here, regulation depends on good governance and self-regulation. This model relies on codes of conduct and self-discipline on the part of the actors.
(2) The second option is based on the premise of autonomous markets, but includes an additional principle: States have common interests. This model abandons the concept of public actors acting autonomously, and instead sets up supranational institutions endowed with the power to sanction States.
(3) The third option is based on the premise that States are autonomous, but they also have common interests. This model abandons the concept of private actors acting autonomously, and instead allows multilateral negotiations to set up institutions endowed not only with the power to sanction States, as in the previous case, but also with the power to intervene in markets.

None of these options is totally satisfactory. The weakness of the first option is that it assumes the existence of a "natural" order that, among other things, ignores the problems of market imperfections and inequality between States. The weakness of the second option is that while it ignores the problems of market imperfections, it goes beyond the question of the legitimacy of existing institutions and raises the question of the relationship between institutions and markets. The weakness of the third option is that, in addition to the problem of the legitimacy of existing institutions, there are problems intrinsic to the negotiation process. This process is necessarily slow and laborious compared to markets, which evolve rapidly, and face resistance from States always very watchful for preserving their sovereign rights[23].

Of the three options, the second is the weakest. This is due principally to the fact that, by recognizing the autonomy of markets, this option reproduces the problem of a State's negotiating power, though at a different level. States currently deal with markets and firms individually; in the second option they would have learn how to work together and use collectively their negotiating power to deal with the globalisation of markets and powerful private actors. We will therefore exclude this option.

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23 Based on Gérard Kebabdjian's extremely sound advice regarding my initial outline, I have made certain improvements to my model. The changes deal mainly with options (2) and (3). However, my overall approach remains unchanged (cf. Gérard Kebabdjian, "La nouvelle architecture financière : gouvernance globale ou règles internationales", *Études Internationales,* Vol. XXXIII, No. 2, June 2002, pp. 217-248).

The two remaining options are currently vying with one another, mainly at the regional level, with the FTAA project promoting the first option, and the *European Union* promoting the second one.

In the first case, once the question of the actors' autonomy has been established, it is be a matter of introducing rules of governance to govern behaviour, the institutions to arbitrate disagreements, and mechanisms to eventually eliminate the abuse of market power and to manage systemic risks. The general principle guiding this approach is competition, to be extended to markets, individuals and institutions as the World Bank developed the idea in its 2001 annual report.

In the second case, it is the general interest and common law that are the guiding principles. As Fukuyama points out, these principles must be implemented through collective bargaining among the legal actors, that is, among States. Here, it is a question of establishing common institutions — endowed with exclusive powers — that are autonomous and that give its legatees the right to intervene in markets and in States themselves. This is the slowest-paced and most laborious option. To its merit it revisits the problem raised in debates surrounding the creation of the post-war order. The solution advanced then was to give back the regulation of markets to States, and the regulation of relationships among States to international institutions duly mandated for this purpose. This solution was appropriate for its time, but is not relevant today.

Markets escape State regulation, and there is nothing to fill the void except for codes of conduct. As already noted, the codes of conduct option is advocated not only by neo-liberals but also by those who wish to preserve the right of States, a right that States hold by virtue of their democratic legitimacy and their sovereignty. However, this option should not be undervalued. After all, a great merit of the post-war order, in spite of the shortcomings attributed to it, was to have elevated multilateralism to a universal principle and to have turned it into a bulwark — be it ever so fragile — against unilateralism, especially that exercised by the most powerful States. Thus, to promote the autonomy of public actors as the best policy amounts to turning back the clock and, as previously indicated, giving free reign to a dynamic of competition that will create even greater imbalance in the world economy or, worse yet, divide the world into rival blocs. It also amounts to assuming that markets are efficient, at least under competitive conditions. This is not at all obvious today; while globalisation has given rise to enterprises with branches all over the world, the efficiency and market power of these enterprises remain an open question. Lastly, it amounts to giving certain States the right to determine the kind of institutional reforms to be carried out, or even the rights to define what constitutes public. This is reminiscent of the argument advanced by the theory of hegemonic stability with regard to international social goods. In sum, not only is it far removed from what the liberal model anticipates, but also from what the collective negotiation model advocates — negotiation that is supposed to lead to a community of nations serving as the guardian of the collective interest.

Conclusion

Modernity was built on the concept of the State. Liberal economic thought, which portrays itself as universalistic, has always sought to minimize the role of the State. It assumes that the economic laws controlling social relations are global, transcending the world's political divisions. As one nineteenth century author so aptly put it, "if we have distinguished between foreign trade and the trade that 'citizens' conduct amongst themselves, it is because we have followed current practice: we have explained the phenomenon from the standpoint of those who still view humanity in terms of territorially confined groups of varying size. However, from the standpoint of political economy, states do not and cannot exist; there are only workers, producers and consumers. The material well-being of all workers increases as it becomes easier for them to engage in trade"[24]. That said, we cannot escape reality: States do exist. Globalisation does not signal the end of the State and the emergence of a universalistic ideal of economic thought. Instead, and notwithstanding its new focus, it highlights a tension that has always existed between universal rules and collective choices made by individual societies.

Between the universalism of doctrine and the individual national characteristics conveyed by *compétitivisme*, there is room, as Keynes taught us, for pragmatism. However, this pragmatism requires that we accept two facts: first, the liberal economic system does not function on the basis of the ideals of competition; second, the international system does not function on the basis of power alone, notwithstanding assertions to the contrary made by "realists" in the field of international relations.

Since globalisation is here to stay, we need to re-think the way it is regulated. We need to do this at the theoretical level, in terms of policy, and at the appropriate level of analysis, that is, at the global level. It follows that we must break with the approach that has always relied on market self-regulation and good governance by States. However – and this brings us back to the dilemma raised in the beginning of this essay – we must also examine different forms of regulation, and raise questions about their aims. This means that we must avoid idealistic forms of regulation that invoke a non-existent global civil society. We must also avoid forms of regulation that claim they can build global institutions which have no historical basis and no basis in markets themselves. In other words, we must avoid all forms of idealism, including "self-regulation" and "universal common interest". Therein lies the intellectual challenge.

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[24] M. T. N. Benard, *Les lois économiques*, Paris, Guillaumin, 1856, pp. 347-348.