Chapter 1

GLOBAL INSTABILITY: UNCERTAINTY AND NEW VISIONS IN POLITICAL ECONOMY

Stephen McBride
Simon Fraser University

Laurent Dobuzinskis
Simon Fraser University

Marjorie Griffin Cohen
Simon Fraser University

James Busumtwi-Sam
Simon Fraser University

INTRODUCTION

Unprecedented levels of instability and uncertainty have been generated by the complexity of events and trends in the contemporary global political economy. To a large extent, at the crux of this instability is the growing political salience of various forces and activities that appear to transcend and impinge not only upon existing political boundaries and forms of economic production and distribution, but also on the values that underpin social institutions and existing modes of social and cultural differentiation. These activities include, but are not limited to, the phenomenal growth in global trade and private capital flows, increased pressures for financial liberalization and the growing instability of national currencies, increased cross-border flows of people and ideas, and the growth of transnational social movements as well as in various illicit activities associated with transnational organized crime.

While the precise meanings and implications of these trends and phenomena remain unclear, in different ways, they serve to reinforce the fact that the "international" and "domestic" cannot be isolated from each other, analytically or in practice. They also create a pressing need to question the assumptions and values underpinning actual forms of globalization, and of taking a moral/ethical stance on its effects. This book presents a collection of papers that undertake these tasks. The essays examine the political consequences of existing forms of globalization for states and their populations, and explore the issue of alternatives to the dominant model of globalization we are presently experiencing. The various chapters attempt to ground their analysis of instability, uncertainty and change in the real

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problems that globalization creates for states and peoples, and for those who might attempt to devise alternatives.

The opening four chapters explore the operation of and alternatives to the existing trade regime centred around the World Trade Organization (WTO), the challenges posed by currency instability in an environment of financial deregulation, the rights conferred on investors by the North American Free Trade Agreement (NAFTA), and the progressive liberalization of trade in services built into the General Agreement on Trade in Services(GATS). The theme then shifts to the analysis of the national and sub-national dilemmas that are posed by attempting to manage a set of global developments within a given territory. The difficulties faced by states in managing these dilemmas are examined in four chapters that address various industrial, social, and development policy issues. A final sequence of four chapters explore some theoretical alternatives to a globalized world, as well as some of the normative and ethical exigencies that create a need for alternatives. Responses at the level of institutions and ideas are canvassed in these chapters, and the urgency of the problems generated are highlighted.

The initial chapter, by Daniel Drache, explores a still-born post-war international organization, the International Trade Organization (ITO), that offers a different vision of how a globally integrated economy might operate. On the basis of his investigation of the post-war concept of an ITO, Drache concludes that the WTO is a truncated version of the original concept of an international governing body to supervise world trade. He argues that the WTO model privileges the interests of capital, and that an international institution with a wider mandate that takes into account the goals of other social forces, like full employment, is needed in this field. As Drache shows, the case for this exists not only theoretically, but also in an actual example, the ITO, the characteristics of which are worth recalling. The chapter concludes by noting that if it was once possible to envisage a broader globalization regime it is possible to do so again – and there is a pressing need to do this.

The problems created by accelerating cross-border competition among currencies and the resultant turbulence in the international monetary environment is the focus of Benjamin Cohen's chapter. In addressing the question of whether national currencies are becoming obsolete, Cohen argues that currency competition compels governments to choose from among a limited number of strategies, only one of which involves preservation of a traditional territorial money. His analysis suggests that many national currencies may disappear, leading to an increasing number of regional currencies of one kind or another – a distinctly new geography of money. But there is no sure way to predict what that new geography of money will ultimately look like. The chapter concludes with the observation that while we have a fairly good idea of the principal factors that are likely to influence state preferences, many actual configurations are possible and even probable. The chapter by Maureen Molot shifts the lens back to international trade

through an examination of the negotiation and evolution of Chapter 11 (the investment chapter) of the North America Free Trade Agreement (NAFTA). The basic question posed is that of regime evolution: has the experience of the signatories met their expectations and what are the processes for regime evolution or change? Molot analyzes the demands and expectations of the NAFTA parties around the investment chapter, outlines the norms and procedures established by the regime, reviews the cases brought thus far under Chapter 11, and then examines demands for changes in the regime.

Russell Williams continues the examination of trade issues. He sets out to show that an understanding of the history of the General Agreement on Trade in Services (GATS) requires an account of how international norms or "ideas" altered policymakers' conceptions of service industries. Beginning in the early 1970s, several private sector think tanks and industry associations succeeded in convincing national trade negotiators, that services could be traded like goods and consequently, barriers should be liberalized to promote efficiency. As a result, leading multinational service conglomerates were successful in getting the GATS included in the WTO. The importance of ideas in this story poses lessons for both structurally-based theories of International Political Economy, which focus exclusively on actors' materially-determined interests, and for popular political debate. Here, globalization of service industries was not technologically inevitable, but rather was the product of changing understandings of trade in services.

The next four chapters examine a number of sectoral, industrial, and social policy issues that illustrate the dilemmas confronting national and sub-national actors and groups as they seek to cope with globalization's challenges. In chapter five, Bradley Bowden and Andrew Molloy compare the evolution of the coal mining industry in the Cape Breton area of Nova Scotia in Canada and the Queensland coal mining industry in Australia, highlighting the different responses to crises produced by changing markets, alternative energy sources and new mining techniques. Their analysis shows that while the term "globalization" is a relatively recent addition to scholarly discourse, exposure to the vagaries of the international market is hardly a new experience to those in the natural resource sector. Trade in such commodities as timber, animal furs and minerals became the "staples" upon which "New World" economies were built. And for the mining communities of both Cape Breton and Queensland the experience of the last 100 years indicates the continued vulnerability of the natural resource sector to market forces, whether or not the industry is in public or private hands. Marc Lee addresses the past, present and future of active industrial policy. In the first part of his analysis, Lee surveys the historical development of today's industrialized nations, and finds legacies of government involvement to channel resources into strategic sectors, protect emerging industries and offset market forces. In the second part he shows how industrial policy has been constrained by WTO

rules. Finally, Lee considers what is left of industrial policy in a WTO world and the remaining options available to countries. He argues for a renewed public sector as an anchor for industrial policy in the future.

The next two chapters provide an interesting contrast of state responses to globalization pressures in Australia and Mexico. John Wiseman provides a critical, grounded discussion of policy options that are beginning to be explored by governments seeking alternatives to neoliberal political and economic directions. The discussion combines an overview of relevant international trends and dilemmas with lessons to be learned from the experience of a state government in Australia – the Bracks Labor Government in Victoria. Noting that the critique of extreme forms of neoliberalism is increasingly influential, Wiseman traces the emergence of an alternative political and policy paradigm that strives for a more balanced and integrated relationship between economic, social and environmental values and goals. Wiseman concedes that the shift from neoliberal policy directions is slow, uneven and contested. However emerging spaces for exploring new policy directions provide important opportunities for linking alternative policy ideas to new approaches to political engagement and policy implementation.

The role of the state in Mexico is the focus of the chapter by José G. Vargas Hernández. This role is analyzed as one of transition from an "entrepreneurial state" toward a state of entrepreneurs. He argues that the era of the presidential Mexican entrepreneurial state, protectionist and populist with some emphasis on a welfare state model, was followed by presidential reinvention of the state based on neoliberal premises. This was the result of several factors including the economic and political impact of globalization and its pervasive effects on unequal income distribution, weak governance, political instability and lack of property security. It also reflected a new relationship between government and business enterprises. The new regime has achieved some impressive results in terms of economic growth and development. But this has been accompanied by an increase in poverty, declines in real incomes, increased unemployment, and a widening gap between the rich and the poor, leading to fissures in society and fuelling guerrilla warfare and crime waves. Vargas argues that only a turn to democratic legitimation of the regime could produce an ability to manage such problems.

The final four essays examine possible alternatives to existing forms of globalization and take up some important ethical issues and dilemmas raised by its effects, which centre on the kinds of values that do, or should, underpin political and social institutions. The section begins with an examination of ecological issues that are among the most contentious with growing globalization. Gus diZerega shows that traditional political institutions have done poorly in protecting these ecological values and the advent of global economic integration threatens them even further. Forestlands are poorly suited for either traditional political management and oversight or traditional privatization. Using temperate forests, particularly

U.S. National Forests, as his case study, diZirega explores more promising alternatives. He argues that geographically defined governments do not handle such public interests well. In the case of the U.S., traditional bureaucratic management, congressional oversight, and interest group politics have done a poor job. The public record elsewhere is often no better, and privatization also tends to ignore important values served by these public lands. diZerega shows that the model of a democratically governed trust holds great promise for solving or ameliorating many issues. Based on experience with the National Trust of England, Wales, and Northern Ireland, public forests would be better and more democratically governed by forest trusts than by traditional democratic institutions. They would also be more attentive to the complexity of values served by each forest than would privatization.

Laurent Dobuzinskis examines the contemporary renewal of interest in the rhetoric of civic republicanism, which is particularly evident in France and the United States but is by no means limited to these countries, as possibly pointing the way toward new creative responses to the challenges of globalism. Liberal democracies are pulled between the neoliberal logic of increasingly global market forces and the democratic aspirations of citizens. And it is often argued that the social democratic consensus of the post-war years no longer provides adequate answers to this dilemma. Dobuzinskis argues that civic republicanism has been used both as a means of ineffectively invoking a nostalgic past and as a source of inspiration for the articulation of a new cosmopolitan political project. While this chapter underlines the merits of the latter, it also argues that civic republicanism is an ambiguous ideology within which both retrograde and emancipating ideas are inextricably meshed.

Andrea Migone contends that the current approach to globalization suffers from a dual problem. On the one hand, many of the definitions of globalization are unduly simplistic and often fail to capture the multi-layered complexity of current changes especially the cultural and institutional elements. He also addresses a second shortcoming of the debate on globalization – the lack of an explicit ethical background, with the exception of some vague notion of market fairness, for what amounts to a highly comprehensive and wide-ranging set of changes and interventions. To correct this situation, Migone assesses the possibilities of the re-emerging field of Economic Personalism. Drawn mainly, but not uniquely, from the tradition of Catholic ethics, Economic Personalism represents a coherent attempt at bringing together economic theory and moral ethics and at applying them to the concrete realities of today's economy.

In the chapter by Duncan Cameron, analytical categories developed by the noted political theorist, C.B. Macpherson, are brought to bear on the need to revisit and update our conceptual thinking about democracy in the age of global instability. Cameron argues that the ascendancy of neoliberalism

Chapter 2

WHEN LABOUR AND INVESTMENT STANDARDS ALMOST MATTERED: A PUTATIVE HISTORY LESSON IN TRADE POLITICS THAT OUGHT NOT TO BE FORGOTTEN

Daniel Drache
York University

INTRODUCTION

When the international order was redesigned from scratch in the late 1940s, policy makers had to decide whether a global trade organization could extend beyond trade and address issues like labour standards, developmental needs and human rights. Like today they needed a rules-based system to organize the world economy. Indeed they had to find the optimum structure for such a body in which liberalism, in the words of the *Economist*, would be "freed from theology"[1] and effect a compromise between market forces and the democratic aspirations of people.

Along with the World Bank and the International Monetary Fund (IMF), the International Trade Organization (ITO) formed the centrepiece of a new kind of international organization. What was particularly novel about the International Trade Organization, proposed in the Havana Charter of 1948, was that it was not simply or mainly a trade organization like the WTO, its latter day descendent. The countries of the world rejected the idea that it was possible to maintain firewalls between trade, development, employment standards and domestic policy. The ITO's most distinctive feature was the integration of an ambitious and successful program to reduce traditional trade barriers with a wide-angled agreement that addressed investment, employment standards, development needs, business monopolies and the like. It pioneered the idea that trade disputes had to be settled by consultation and mediation rather than with legal clout. Further it established an institutional linkage between trade and labour standards that would effect a major advance in global governance. Finally it embedded the full employment obligation,

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along with "a commitment to free markets" as the cornerstone of multilateralism.

Despite its bold vision, the U.S. Congress refused to ratify the Havana Charter, even though the U.S. government had signed it. In the end, the Charter's demise had long lasting effects on the world trading system. General Agreement on Tariffs and Trade (GATT), not the ITO, was left in charge and this was to make possible the return of the free trade canon in all international organizations, and in the practice of multi-lateralism over the next four decades.

The global economy of the twenty-first century is strikingly different from the heady-days of the ITO and it would be foolish to believe that the ITO can serve as a template for reforming the WTO. There are, however, some striking parallels. The ITO created a rules based system as did the WTO when it was created. The ITO had to find ways to rescue trade liberalization from the inter-war crisis that had discredited laissez-faire free trade. It spent a lot of time wrestling with the north-south divide that was as divisive then as now. The final dimension of its agenda was the issue of global governance, again much like our own time. Faced by similar issues, the ITO was more ambitious and visionary than the WTO. The ITO founding fathers found a way to link it to the other Bretton Woods institutions. This meant that trade was not beholden to financial markets and it was possible to create linkages to non-trade issues. The ITO accepted the proposition that as a governance structure it would have a place for civil society actors and other organizations such as the International Labour Organization (ILO).

This chapter examines of the historical case of the ITO and, in the process, presents an important argument. Unlike the ITO, the WTO is a truncated version of the original concept of an international governance body responsible for overseeing world trade the WTO model privileges the interests of capital at the expense of public need. As we shall see, there is an emerging consensus about the need for a different kind of international institution in this field that has a wider mandate and appeal, one that takes into account the goals of other social forces, including full employment and development. As well as there being a theoretical case for preserving the social bond, the characteristics of the ITO are worth recalling as a bold experiment in governance in a period when the world community was able to envisage a broader globalization regime. This kind of hinge moment may come again should states begin to address the systemic needs of the world trading system rather than merely look for new ways to boost investment rights. When such a moment occurs, the ITO may remind us that international governance can take a different path, and that the world trading system can look strikingly different than the way it does in our own times. Thus the ITO represents a lesson that ought not to be idly forgotten.

Why A History Lesson?

The ITO highlights the efficacy of policy ideas, both in changing statecraft and in "their practical value in solving political dilemmas that gives them a force in history."[2] The steps taken to create the ITO represented an occasion when the needs of international civil society and modern statecraft coincided, when ordinary people demanded that trade, employment goals and development should reinforce each other in the world trading system. The final Havana text is worth looking at because it is authoritative and comprehensive and because all countries of the globe signed on to it.

The rebuilding of the world's trading system took place in the context of the Keynesian revolution that transformed economic thinking and state practice. The full employment obligation also explains the many linkages that were drawn between trade and non-trade issues. Ideas that transform a discipline or an era or the collective psychology of a period are a relatively rare occurrence. Those that succeed only do so because, at the time the existing orthodoxy is discredited, a powerful and an alternative conceptual framework exists that is compelling and meets popular and elite expectations.

There was a consensus that the ITO, or any similar body, would have to be more than a set of principles. It could not survive on generalities alone. It had to be an effective organization, one that enabled countries to maintain their exports, compete internationally for markets, safeguard their exchange rates and fulfill their employment obligations. All of these factors created the demand for new international rules to organize the world's trading system as a practical exercise in statecraft. In Meade's (1951) words, the ITO had to find the optimum way to internationally maximize production and optimize trade,[3] a formulation which continues to have much contemporary relevance for southern countries.

Of course not everything included in the ITO Charter was innovative; indeed much that was contained in it reflected the conventional wisdom of the period. However, it wanted to modernize liberal free trade values and practices and make them compatible with a Keynesian age. And, in addition, it did have a new vision of political economy that suggested that a trade and investment regime had to be more than an abstract set of rigid legal principles with which to defend investors' rights at any price. Along with the World Bank and the IMF, it formed the centrepiece of new kind of international organization, which in the words of Richard Gardner, "sought to make finance the servant, not the master of human desires internationally."[4]

Recently, a new generation of researchers is beginning to take a second look at the ITO and its larger role in the restructuring of the postwar world. A unique set of conditions pushed full employment onto centre-stage

and laissez-faire free trade on to the back burner. For many years, leading international political economy scholars have neglected the complex set of relationships of the ITO and other postwar bodies charged with the functioning of a multilateral international economic order. Their accounts tend to give pride of place both to the IMF and the World Bank in their first decade of operation and generally have little to say about the putative role of the still-born International Trade Organization other than to note that it disappeared from centre stage, a victim of U.S. trade politics. Yet, there is more to those dramatic events than has been acknowledged. Political will, ideas and expectations dramatically converged for a brief critical period to create a different kind of international governance system.

Present at Creation: The Hinge Moment

Created to oversee the world trading system in the immediate postwar period along with the World Bank and the IMF, the ITO was the model for a new kind of international organization. Stamped by the powerful idea that people mattered even more than export opportunities, it embodied the radical ideal that liberal trade principles had to serve the full employment agenda that every industrial country began to adopt in the closing years of the war. With all industrial countries placing "a high and stable level of employment" at the top of their policy agendas, there was no turning back to pre-war arrangements. Along with the principles of multilateralism and trade liberalization, the full employment revolution in economic thought had arrived and a coalition of social forces demanded that the employment and developmental needs of nations be addressed by the countries of the world once peace was restored.

The ITO was established by fifty-three countries at Havana as the Final Act of the UN Conference on Trade and Employment and spanned more than five years of intense international activity in wartime and peacetime.[5] Its over-arching mandate for the regulation of trade included tariff reduction, business cartels, commodity agreements, economic development and foreign direct investment. Hundreds of officials were involved in its creation and there are 100 volumes of transcribed minutes of its deliberations. It was to be, in Truman's words, "the solid foundation of continuous co-operation in economic affairs." A small group of U.S. and U.K. experts had begun to prepare a draft treaty in 1943 outlining the principles, objectives, rules and constitution for an organization responsible for world trade and a draft was ready that explicitly linked trade and employment in the title. *Proposals for the Expansion of World Trade and Employment* were presented in London in 1945 for debate, discussion and revision. This document was subsequently revised at the Geneva meeting and the final text of the treaty, *Suggested Charter for an International Trade Organization of the United Nations* was finalized in Havana in 1948 during the UN Conference on Trade and

Employment. The ITO was to be the third "essential" pillar of the international economic organization of the postwar world.[6]

At the time that the ITO was organized, the notion of giving equal weight to employment considerations and to establishing new multilateral trade rules had become part of mainstream thinking. Traditional methods of liberal trade policy could not be relied on to dismantle trade barriers. The ITO can be understood as a major break from prewar arrangements when all governments believed that international monetary policy alone was "the glue that binds national economies together."[7] Jacob Viner, the doyen of international trade theory and a leading advocate of liberal principles of trade dismissed the outmoded views of the free trader in his influential 1947 article in *Foreign Affairs*: "There are so few free traders in the present-day world, no one pays any attention to their views and no person in authority anywhere advocates free trade."[8] Exchange rate stability, that elusive ideal of classic liberalism, had meant employment losses and falling wages when Central Banks defended the gold standard with a high interest rate policy. The consensus in London, Washington, Paris, Rome, Ottawa, New Delhi and Canberra was that in the new world order state-market relations had to be put on a new footing so that governments would be insulated from market pressures in order to pursue more important goals than commercial gain.

World leaders had learned from the experience of the 1930s, and the failure of the League of Nations, that solving economic problems required practical solutions to complex trade, technical and international questions. In an international economic organization designed to uphold the new world order, the ITO or any similar body would have to be an effective organization, one that covered many complex issues and enabled countries to maintain their exports, compete internationally for markets, safeguard their exchange rates and fulfill their employment obligations. All this demanded new international rules to organize the world's trading system as a practical exercise in statecraft.

In retrospect, linking the objective of a much-broadened concept of trade liberalization with an unequivocal commitment to the goal of full employment is not all that startling. Mass unemployment was the scourge of the interwar period. It overshadowed all other issues and concerns, affected the lives of millions of people and was the social problem that finally destroyed the last remaining vestiges of legitimacy of the gold standard and laissez-faire free trade. Unemployment policy as well as tariff, credit and exchange rate policies were properly regarded as the individual concern of each country. But the experience of the 1930s taught another equally important lesson, namely, that employment was linked in a variety of ways "with the outside world."[9] No country on its own could solve these problems without addressing its international relations with other states.

Chapter 3

Monetary Instability: Are National Currencies Becoming Obsolete?

Benjamin J. Cohen
University of California, Santa Barbara

Nothing signifies the growth of instability in today's international political economy more than the disruptive financial crises that have swept the world in recent years – the speculative attacks on the pound sterling and other European currencies in 1992-93, which broke up the old European Monetary System; the fall of the Mexican peso in 1994, which sparked a worldwide contagion in financial markets that came to be known as the tequila effect; the East Asian crisis of 1997-98, which began with crash of Thailand's currency, the baht, and then spread outward in another contagion, which some this time labelled a case of "bahtulism"; the Russian default of 1998; Brazil in 1999; and the continuing troubles of Argentina, Turkey, and others. In just one decade the world's monetary system has gone to the brink a half dozen times. No wonder there is so much talk – albeit, to date, rather little action – about reform of what we now call the international financial architecture.

Yet in a very real sense, all of these crises may be considered little more than the tip of the iceberg – the outward manifestations of a much more fundamental transformation of the global monetary environment. That transformation, which I wrote about in my recent book *The Geography of Money* (1998), is being driven by a rapid acceleration of cross-border competition among currencies – what in *The Geography of Money* I called the deterritorialization of money. Circulation of national currencies no longer coincides with the territorial frontiers of nation-states. A few popular monies, most notably the U.S. dollar and Europe's new euro (succeeding Germany's Deutschmark), have come to be widely used outside their country of origin, competing directly with local rivals for both transactions and investment purposes. Many weaker currencies, conversely, have been reduced to a minority share of the money supply in their own country of issue. All of the crises of the last decade can be understood as instances of national monies that, in this increasingly unstable environment, have lost their market appeal.

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This instability, then, raises a truly fascinating question. In all markets, we know, the logic of competition suggests that, ultimately, many weaker rivals will be eliminated. And so, we might think, the same should be true in the market for monies. Does this mean that national currencies are becoming obsolete? Are many of the monies around the globe – the diverse kips (Laos), quetzals (Guatemala), pulas (Botswana), and levs (Bulgaria) – destined to go the way of the Dodo bird? The short answer, for many, is almost certainly Yes. Extinction could be the fate of the currencies of even some of the world's richest economies, such as Canada's beloved loonie.

In this paper, I will make three main points. I start with the transformation of today's global monetary environment. The implications of deterritorialization for the survival of national currencies are only beginning to be understood. My first point is that currency competition compels governments to choose from among a limited number of strategies, only one of which involves preservation of traditional territorial money. Second, a good number of national monies will indeed disappear, leading to an increasing population of regional currencies of one kind or another – a distinctly new geography of money. But, third, there is no sure way to predict what that new geography of money will ultimately look like. We have a fairly good idea of the principal factors that are likely to influence state preferences, but many configurations are possible and even probable.

THE NEW GEOGRAPHY OF MONEY

That the global monetary environment has been greatly transformed in recent decades is undeniable. A half century ago, after the ravages of the Great Depression and World War II, national monetary systems – with the notable exception of the United States – were generally insular and strictly controlled. Starting in the 1950s, however, barriers separating local currencies began gradually to dissolve, first in the industrial world and then increasingly in many emerging-market economies as well. Partly this was the result of an increased volume of trade, which facilitated monetary flows between states. But even more it was the product of intense market competition that, in combination with technological and institutional innovation, offered an increasingly freer choice among currencies. Currency substitution widened access for a growing number of actors at all levels of society.

Most scholarly attention has been paid to the remarkable growth in recent decades of capital mobility, reflected in a scale of international financial flows unequalled since the glory days of the nineteenth-century gold standard. The high level of capital mobility today is commonly cited as one of the most visible artefacts of contemporary globalization. But these flows are just part of the story of money's growing deterritorialization. A focus on capital mobility, emphasizing integration of financial markets, highlights only

one of the standard functions of money: its use as a store of value. In fact, the interpenetration of monetary systems today has come to be far more extensive, involving all the functions of currency – not just money's role as a private investment medium but also its use as a medium of exchange and unit of account for transactions of every kind, domestic as well as international. Cross-border currency competition means much more than capital mobility alone.

Deterritorialization is by no means universal, of course – at least, not yet. But it is remarkably widespread. Krueger and Ha (1996) estimate that foreign currency notes in the mid-1990s accounted for twenty percent or more of the local money stock in as many as three dozen nations inhabited by at least one-third of the world's population. In all, as much as one-quarter to one-third of the world's paper money supply is now located outside its country of issue. Most currency substitution is concentrated in Latin America, the Middle East, and republics of the former Soviet Union, where the dollar is favoured; or in East-Central Europe and the Balkans, where the DM traditionally predominated. By a different measure, focusing on foreign-currency deposits rather than paper money, the International Monetary Fund identifies some eighteen nations where by the mid-1990s another state's money accounted for at least thirty percent of broad money supply.[1] The most extreme cases, with ratios above fifty percent, included Azerbaijan, Bolivia, Croatia, Nicaragua, Peru, and Uruguay. Another thirty-nine economies had ratios approaching thirty percent, indicating "moderate" penetration.

What are the implications of this transformation for the survival of national currencies? For specialists in open-economy macroeconomics, who typically focus narrowly on capital mobility, the significance of recent developments is restricted mainly to implications for the choice of exchange-rate regime. Traditionally, the exchange-rate issue was cast in simple binary terms: fixed versus flexible rates. A country could adopt some form of peg for its currency or it could float. Pegs might be anchored on a single currency or a basket of currencies; they might be formally irrevocable (as in a currency board) or based on a more contingent rule; they might crawl or even take the form of a target zone. Floating rates, conversely, might be managed or just left to the interplay of market supply and demand. More recently, the issue has been recast – from fixed versus flexible rates to a choice between, on the one hand, contingent rules of any kind and, on the other, the so-called "corner solutions" of either free floating or some form of monetary union. Today, according to an increasingly fashionable argument known as the bipolar view or two-corner solution, no intermediate regime can be regarded as tenable.[2] Owing to the development of huge masses of mobile wealth capable of switching between currencies at a moment's notice, governments can no longer hope to defend policy rules designed to hit explicit exchange-rate targets. The middle ground of contingent rules has in effect been "hollowed out," as Barry Eichengreen (1994) memorably put it.

But that too is just part of the story. In reality, much more is involved here than simply a choice of exchange-rate regime. At its most fundamental, what is involved is nothing less than a challenge to the long-standing convention of national monetary sovereignty. Governments have long claimed an absolute monopoly over the issue and circulation of money within their own territory. Currencies were to be territorial – exclusive legal tender within the nation's frontiers – with strict lines separating one monetary domain from another. However, once we look beyond capital mobility alone to the broader phenomenon of currency competition, we see that in many areas of the world the traditional dividing lines between national monies are becoming less and less distinct. No longer are most economic actors restricted to a single currency – their own home money – as they go about their business. Cross-border circulation of currencies, which had long been common prior to the emergence of the modern state system, has dramatically re-emerged, resulting in a new configuration of currency spaces – a new geography of money. The functional domains of many monies no longer correspond precisely with the formal jurisdiction of their issuing authority.

Currency deterritorialization poses a critical challenge because governments have long relied upon the advantages derived from formal monetary monopoly to promote their conception of state interest. In fact, five main benefits are derived from a strictly territorial currency: first, a potential reduction of domestic transactions costs to promote economic growth; second, a powerful source of revenue (seigniorage) to underwrite public expenditures; third, a possible instrument to manage the macroeconomic performance of the economy; fourth, a potent political symbol to promote a sense of national identity; and finally, a practical means to insulate the nation from foreign influence or constraint. But all these gains are eroded or lost when a government is no longer able to exert the same degree of control over the use of its money, by either its own citizens or others. Instead, in a growing number of countries, policymakers are driven to compete, inside and across borders, for the allegiance of market agents – in effect, to sustain or cultivate market share for their own brand of currency. The monopoly of monetary sovereignty yields to something more like oligopoly, and monetary governance is reduced to little more than a choice among marketing strategies designed to shape and manage demand.

Broadly speaking, for affected states, four strategies are possible, depending on two key considerations – first, whether policy is defensive or aggressive, aiming either to preserve or promote market share; and second, whether policy is unilateral or collective. These four strategies are:

Market leadership: an aggressive unilateralist policy intended to maximize use of the national money, analogous to predatory price leadership in an oligopoly.

Market preservation: a status-quo policy intended to defend, rather than augment, a previously acquired market position for the home currency.

Market alliance: a collusive policy of sharing monetary sovereignty in a monetary union of some kind, analogous to a tacit or explicit cartel.
Market followership: an acquiescent policy of subordinating monetary sovereignty to a stronger foreign currency via a currency board or full dollarization, analogous to passive price followership in an oligopoly.

Of these four options, a strategy of market leadership is of course generally available only to governments with the most widely circulated currencies, such as the dollar and euro. For the vast majority of states with less competitive monies, decision making is limited to the remaining three – a tricky tripartite choice. For these states, the very survival of national money is at stake.

CURRENCY REGIONALIZATION

The basic question for such states is the familiar one of constrained choice. What limits on national policy are they willing to accept? Should governments seek to sustain their traditional monetary sovereignty (market preservation)? Or, alternatively, should they countenance delegating some or all of that authority upward, either to the joint institutions of a monetary union (market alliance) or to a dominant foreign powers (market followership)? Involved is what one source[3] calls a "sovereignty bargain" – a voluntary agreement to accept certain limitations on national authority in exchange for anticipated benefits. Monetary sovereignty is either pooled in a partnership of some sort, shifting authority to a joint institution like the European Central Bank (ECB), or else surrendered wholly or in part to a dominant foreign power such as the United States.[4] The former president of the Argentine central bank put the point bluntly: "Should a [country] produce its own money, or should it buy it from a more efficient producer?"[5] Buying from a more efficient producer necessarily implies a degree of regionalization in currency relations.

Currency regionalization occurs when two or more states formally share a single money or equivalent. With a strategy of market alliance, governments agree to merge their separate currencies into a wholly new joint money, as members of Europe's Economic and Monetary Union (EMU) have done with the euro. This is currency unification, what the economist George von Furstenberg (2000) calls a "multilateral sharing model of monetary union." Examples already in existence around the world include, in addition to EMU, the CFA Franc Zone in Africa and the Eastern Caribbean Currency Union (ECCU). A looser version, called the Common Monetary Area (CMA), also exists in southern Africa, encompassing South Africa and three of its smaller neighbours, Lesotho, Namibia, and Swaziland.

Alternatively, with a strategy of market followership, any single government can unilaterally or by agreement replace its own currency with an