

Populism and the Fading Embedded Liberalism?

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Abstrak

Makalah ini membahas perkembangan institusi-institusi ekonomi politik internasional yang dibentuk dalam kurun waktu 70 tahun terakhir. Sejak Perang Dunia (PD) II hingga saat ini, Negara-bangsa membentuk rezim internasional dalam rangka mengelola dinamika ekonomi internasional. Dalam sejarahnya, lembaga-lembaga ini mengalami pasang surut dan berbagai macam perubahan. Misal, sebuah lembaga yang didirikan pasca PD II cukup mampu mengelola perdagangan internasional akan tetapi mulai melemah di tahun 90an. Pada tahun 1973, rezim moneter pun kolaps. Demikian pula di sektor finansial dan perbankan. Sebelumnya, sektor ini dibiarkan berkembang tanpa banyak regulasi, akan tetapi sejak 1988 mulai muncul inisiatif untuk mengaturnya secara multilateral. Pengaturan ini pun tidak bertahan lama dan gagal mencapai kesepakatan multilateral dalam sektor investasi pada tahun 1998. Penjelasan apa yang bisa diberikan terkait variasi-variasi tersebut? Perkembangan dan variasi tersebut sebenarnya dipengaruhi oleh dinamika *power* di tingkat global dan *social purpose*. Lebih lanjut, perkembangan institusi internasional pasca PD II merupakan perwujudan dari ide *embedded liberalism*, sebuah kompromi untuk menciptakan pasar dunia yang efisien, dan pada saat yang sama, tidak mengancam kehidupan masyarakat. Dengan kata lain, sebuah pasar yang efisien yang memiliki legitimasi sosial. Makalah ini akan membahas perkembangan-perkembangan tersebut sekaligus prospek masa depan kompromi *embedded liberalism* di hadapan ancaman gerakan populis anti perdagangan bebas. Meski hal tersebut merupakan ancaman serius, makalah ini mengajukan pendapat bahwa terlalu dini untuk menilai kompromi tersebut telah mati. Makalah ini terdiri dari dua bagian; bagian pertama merupakan pembahasan teoritis terkait institusi internasional dan variasinya, sedangkan bagian kedua merupakan kajian empirik perkembangan gerakan populisme terkini sekaligus mendiskusikan beberapa solusinya. Argumen dalam makalah ini dibangun berdasarkan karya John G. Ruggie terkait *embedded liberalism* dan Emitai Etzioni tentang komunitarianism.

Kata kunci: globalisasi, institusi internasional, *embedded liberalism*, *populism*

Abstract

This paper discusses the development of institutions within international political economy over the course of the last 70 years. From World War II to the present, states have constructed regimes to manage some-but not all-aspects of the international economy. A once-strong regime to manage trade has weakened since the 1990s. Likewise, with the abandonment of dollar-gold convertibility in 1973, a robust regime to manage monetary relations collapsed. Conversely, states originally left finance unregulated but in 1988 created and progressively have strengthened rules to manage international banking. In production, the proposed Multilateral Agreement on Investment collapsed in 1998 without ever securing necessary multilateral support. Despite the variations, those institutions are the manifestation of the idea of embedded liberalism, a compromise between the need of developing a self-regulated market and providing economic security for the communities. Arguably, the development and variations in institutions are by and large shaped by the changes in international power structure and social purposes of the institutions. Furthermore, this paper also wants to address the prospect of embedded liberalism especially in the context of recent rise of populism and democratic rejection against free trade as reaction toward the results of globalization. It is too soon to argue about the end of embedded liberalism. This paper is structured into two main parts. The first part is a conceptual framework discussing the nature of institutions and its variations. It is mainly built from the work of John G. Ruggie on international institution. The second part is an empirical analysis of to what extent states are able to renew the promise of embedded liberalism in order to address citizens' dissatisfaction with globalization and growing sense of political helplessness. This last section is indebted to Amitai Etzioni for developing communitarian solutions to populism.

Keywords: *globalization, international institutions, embedded liberalism, populism*

Introduction

International institutions have been one of the main focuses of the study of International Political Economy (IPE). Defined as a social framework where different national interests converge (Ruggie, 1982), international institutions are essential to understand the nature of IPE system which situated between zero-sum situation and total harmony (Krasner, 1991). These institutions evolve and also change. The variations of the institutions for the last 70 years can be explained mostly from the dynamics interaction between power and social purposes as elaborated by John G. Ruggie.

In his essay published in 1982 by the journal of *International Organization*, he describes how the institutions serve as a manifestation of the idea of "Embedded Liberalism". This idea bridges the need of having an efficient global market and the interest of the common people. Global market system cannot last without social legitimacy. For that reason, the post war global economy was created by including compensations for the ones who are harmed by the system. In many European countries, this compromise took the form of generous welfare states while in the United States it took the form of specific compensation programs called Trade Adjustment Assistance (TAA). Unemployment insurance and job retraining are some of the instances. But as the current economic globalization is rapidly changing the society, the compromise of embedded liberalism is no longer easy to be maintained.

Furthermore, the result of the British vote (Brexit), the Trump's rise in American politics, the failure of Trans Pacific Partnership (TPP) and general rise of populism in national politics have shown a large backlash against the results of economic globalization. There has been a growing dissatisfaction of the native-born workers with the economic policy of outsourcing jobs to abroad and how international trade in general has been conducted so far. Adding to that, there is also problem of immigration within domestic level. The economic difficulty has given rise for frustration against immigrants. These immigrants are considered as not only a disruption for economic well being of the people but also a threat for national unity and security. As part of globalization process, workers and other resources flow from the least to the most productive companies or industries. They are taking jobs from the locals and sometimes are being perceived to be hostile toward local values.

Nevertheless, the widespread discontent with globalization cannot be solved simply by protectionism. There is no way to reverse the globalization process. 'Only more trade, not less, will reverse the slowdown in world productivity,' says Dany Bahar, an economist, in his column (Bahar, 2017). International trade has been empirically proven to be beneficial for the overall well-being of the countries: through imports, consumers living in countries open to trade have access to goods and services at lower prices than they would have in the absence of trade. The problem is there are costs to achieve this objective. Although in the aggregate international trade gives these benefits to the countries especially the consumers, the domestic producers often become the losers of this competition. TAA seems cannot cope with the impact of globalization. Countries are constantly experiencing economic crises. Moreover, the current populism comes from people who are traditionally supportive toward international trade rather from the leftist groups.

So, is there any way for states to address these problems? In order to properly discuss the issue, this paper is structured into two main sections. The first section discusses the definitions and the importance of international institutions within the study of IPE or International Relations in general. Developing institutions has been considered to be one of the best ways for states to solve the issue. Therefore, we can rephrase the previous question above by stating: Is there any way for states through institutions to address these problems? All in all, this section deals with the theoretical aspect of international institutions. Although this essay tends to support Constructivism view on institutions, it tries to analyze the issue proportionately by elaborating other schools' of International Relations (IR) views in their understanding of institutions. Adding to that, we will also discuss the developments and variations of international institutions in international economy for the past 70 years. It explains how the changes in international power structure and social purposes have influenced the formation of the institutions. The last section elaborates how globalization contributes in shaping the current institutions. Globalization has not properly included in the discussion of institutional variations during the collapse of Bretton Woods system of 1973. Nevertheless, rather than a distinct factor, globalization alters how the two factors: international power structure and social purposes operate. By refining our understanding of these institutional dynamics, we can generate some ideas to deal with the current problem of populism.

Institutions as an embedded liberalism compromise

Institution has been the buzzword of Social Science since its inception. It is because institution refers the societal aspect of human interaction. It is not merely the summation of individuals or collective but has a distinct nature that has dialectical relations with the units which compose the institution. Each fields of social science focuses certain type of institutions such as community, religion, nation state, and international system. Nation state is in itself an institution, but IR in general concerns to two types of institution related to the existence of the nation state: domestic and international. The question addressed in this paper is on the development and the role of international institutions (multilateral) where nation states are the primary member of this institution. Therefore the definitions of institution here is limited as our understanding of international institutions.

Stephen D. Krasner (1991) argues that international institutions cannot exist in the systems of totally *conflictual* (zero sum) or totally harmonious. In a zero sum situation, each state can act to pursue its own national interests without a need to have coordination with others. In this situation, power is the determinant of 'who gets what and why'. In a system of total harmony, each state can distribute the common good easily because everybody knows the best interest of the whole, the interests of every members and then acts accordingly. There is no need to compete or to coordinate to achieve those interests. But the international system is the place where there is a problem of aversion. Without coordination, there will not be an optimum fulfillment of the goal. For instance, there is possibility for some states to cheat and behave opportunistically. International system is the situation where everybody knows what is the best interests of the whole but has different understanding on how to achieve that.

Therefore, international institution serves as social framework where each member-state can behave strategically and coordinate actions in collective manner to achieve their national interests. International institution is a social framework where different national interests converge and mitigate the problem of collective action (Ruggie, 1982).

For the last 70 years we have seen several example of institutions related to IPE. In 1944, the US (Harry Dexter White) and the British (John Maynard Keynes) met at Bretton Woods, New Hampshire to discuss the world political-economy architecture of the post-World War II. Both sides believed that the main causes of the World War I and II was the lack of social framework to navigate states' policies during the Great Depression of 1930s. The currency and trade wars were a result of rational behavior which led the whole society worse-off. Two and later on three institutions were established to overcome the collective action problems. Those institutions were International Monetary Fund (IMF), International Bank for Reconstruction and Development/IBRD (later on the World Bank), and General Agreement on Trade and Tariffs/GATT (World Trade Organization). The main task of the IMF is to coordinate the monetary policy among member states and help them when they are facing balance of payment problems. The World Bank is a development bank which is providing long term loan and assisting countries to develop their economy. The WTO coordinates the trade policy: reduction tariffs and nontariff barriers to trade in order to create an international (free) trade. In overall, the main purpose of these institutions was to create global prosperity and at the same time, a global peace.

The creation of these institutions was to develop what so called an embedded liberalism, a liberal order of politics and economy but grounded to the need of the people or social purposes. This embedded liberalism was a compromise between the international interest (market) and domestic interest (people, jobs and prosperity). Ruggie develops this notion from Karl Polanyi's work (1944) on how historically the economy and market had developed independently and separately from the social purpose and as a result creating a 'self-regulating market'. The World War I and II were a backlash of how community tried to control market but through fascism or populism.

Karl Polanyi, a Hungarian-American economic historian, wrote a book titled "*The Great Transformation: the Political and Economic Origins of Our Time*" explaining how market had become dominant in shaping human life since the nineteenth century. According to him, recognizing this transformation is critical to understand the social and economic dynamic of our historical period. Polanyi traced back the rise of market society from mercantilism in the nineteenth century and its failure in the twentieth century that created backlash in form of fascism and world war. He emphasizes the limitation of market society or self-regulating market in solving human problems and advocates the importance of human governance in our society. Moreover, he was among the first who discussed 'globalization' long before the existence of the concept itself. For instance, Polanyi analyzes the international sphere for understanding developments within particular nations. Globalization here is understood as the global encroachment of self-regulating market or free market, alias Neoliberalism as some scholars define it.

Polanyi's entire project sought to point the way toward more humane and rational structure for the postwar world by illuminating the historical forces that had led to the Great War, the Great Depression, the New Deal, fascism and World War II in the rise of market society. It is interesting insight for us as student of international relations who traditionally dedicated our intention only on power relations. Polanyi considers Roosevelt's New Deal as an example of the more and rational structure he is referring to. In the New Deal, he saw as the sane alternative to laissez-faire dystopia on the one side and totalitarian anti-politics on the other. It is consistent with his idea on socialism which refers to: "the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society" (242-243).

His work is also relevant to understand the current problems of the world economy. For instance, the Greek Financial Crisis has shown a dangerous conflict between democracy and the pressure of the global financial system. The Greek government could have defaulted on its debt, withdrawn from the Euro, and then imposed extreme austerity measures, or the alternative has been to rely on EU aid package and remain in the Euro zone but the consequence would be even greater degrees of austerity. Both alternatives involved imposing austerity on their own people. This similar problem that has been facing by Greece, Ireland, Spain and Portugal since 2010 replicates those that developing nations have been facing for many years. This out-of-control financial mechanism effect is quite similar to the nineteenth-century gold standard discussed in Polanyi's book. Bretton Woods institutions were established as tools to control this self-regulating market and serve the need of the people. Altogether, embedded liberalism was the underlying social purposes of these institutions.

Nonetheless, social purposes were not solely responsible on the formulation of specific institutions. Therefore, it needs to include the element of Power. The Bretton Woods system was developed in term of dollar-gold convertibility. It was not a global single currency, but at the same time it was not a purely 'an anarchical' financial system. The hierarchy was set up by making other currency peg to dollar and dollar was pegged to gold. This system created a more stable and coordinative financial policy. This specific setup cannot be explained unless we understand the power to the United States during the post-war era. The US was the most powerful nations after the World War II, militarily and financially. The US served as a Global *Hegemon* who provided common good for the rest of the world. At the same time, the system maintained the interest of the US and enabled it to become the preponderance power during that time. Altogether, institution should be understood both in terms of power relations and the underlying social purposes.

There are many variance of how the relation between the dominant state and international institutions within the system. International institutions only exist when they are sustained by a hegemonic power as famously mentioned by the Hegemonic Stability Theory/HST (Kindleberger, 1987). By studying the Great Depression, Kindleberger provides argument saying that the failure of institutions of pre-war period was the lack of hegemonic power that was willing to ensure the implementation of the international institutions. By providing common good to the system (for instance: as the lender of the last resort and

provider of a strong market), a hegemon can create incentive for other countries to cooperate. This view mostly held by liberal school and its variance. Although Keohane is part of the liberal school, he has slightly different view on the nature of relationship between the hegemon and the institution. The abandonment of dollar-gold convertibility during Nixon presidency has shown that the international institution created a platform for cooperation in the time of no hegemon. International institution is the fact of post-hegemony international system (Keohane, 1984).

On the other side of the spectrum, we have Realists school who argue against the importance of international institutions. International institution is merely a tool for sustaining the influence of the most powerful country (Waltz, 1979; Mearsheimer, 1990; Gilpin 2001). Specifically on HST, the realist version is not different from liberal version except the intention. The Hegemon needs create an open economy because it was consistent with its national interests. Studying international institution should not be focus on how the institutions enable countries to coordinate and achieve their interest simultaneously, but we need to study how these institutions were set up in the first place. The setup creates limitation on possible strategies that those countries can employ (Krasner, 1991).

Despite those theoretical differences, we can summarize that institutions are both combination of power relations and the purpose in certain extent. Realists completely remove the element of social purpose, while liberals mostly limit the purpose in term of efficiency and effectiveness. Institutions are the ones who make cooperation easier. This paper argues that Ruggie's concept on institution is more powerful in discussing the development and variations of institutions within international economy.

In *After Hegemony*, Keohane discusses the decision of Nixon to abandonment of dollar-gold convertibility in 1973 due to economic weaknesses of the US. The US has spent a lot of its financial resources for Vietnam War and Johnson's Great Society program while at the same time Japan and Western Europe countries got benefit economically from the system. Scholars had been questioning what will happen to the system where there is no longer US hegemony. He does not explicitly discuss to what extent that this new arrangement of floating currency system varies to its predecessor. His main purpose is to show that the liberal order of open economy did not collapse. In fact, it persisted and no countries embraced protectionism after the abandonment of Bretton Woods system. His conclusion is the institutions have managed to sustain liberal order in the time of the US decline. Implicitly, he argues that the changes of the system were not determined by power relations but more on the continuous interaction between countries which create sustainable cooperation.

Krasner and Gilpin have different argument on the nature of this change. By seeing that IPE is basically the interaction of different national economies competing for national interest, the change of the institutions should be understood from the domestic factors of the economy. The floating system was a result of group politics within the US. This system enabled the US domestic economy to become more competitive toward Japan and Western Europe countries. The US was no longer tied to the value of gold; therefore, it could

optimize monetary policy to boost the economy. This explanation suits well with the change from deregulation prior to 1988 to the strengthening of rules to manage international banking system afterward. This explanation is plausible to understand the behavior of the US, but there are some questions remain. Why other countries support these changes? Why those countries did not become protectionists?

Ruggie discussion on embedded liberalism is more convincing to answer this problem. The power relation is responsible for the 'cosmetic' change of the system, while the social purpose is the one that changes the nature of the system. The main social purpose of those different variations of institutions is to create a liberal order. It is to balance the need of freedom of self-regulated market and stability of countries' economy. Therefore, the abandonment of the Gold System of Bretton Woods happened because of the change of power relations. For Ruggie, the 1973 floating exchange rate was not a substantial change. The underlying social purpose of embedded liberalism was still there but the old system of Bretton Woods could not be sustained with the existing power relations.

The decision to peg the dollar, the Marshal Plan of International Bank for Reconstruction and Development (IBRD), and free trade arrangements served both the need for market to expand and at the same time maintain people's job and prosperity of the people back home (in the US). It was also supported by other countries because the system enabled them to develop their economy after the destruction from the previous wars. Bretton Woods served well for the establishment of embedded liberalism prior the 1970s. All in all, there will be no substantial variation of the institutions when there is no shift on the underlying social purpose. The variation of institutions: in trade, finance, and production was not a substantial variation. There has been power shifting throughout the last 70 years which create technical variation but I can see that there has been no change of the social purposes of these institutions. Those technical variations were simply adaptation to maintain the establishment of embedded liberalism. But then, how about globalization?

Ruggie raises an important question on the future of the institution by seeing the rapid change brought by globalization, but he did not answer it clearly. Globalization has contributed to the changes in the power relations but moreover it poses serious threat to the underlying social purpose of embedded liberalism. The institutions seem cannot cope with the growing complexity of globalization. Globalization can be defined as *fraggmegration* process where there is simultaneously fragmentation and integration both for local and global level. This process creates a more dynamic interaction between micro (individuals) and macro (collectives). In this globalization there is so called the notion of 'the power of small things' or 'tipping point' (Rosenau, 2003). This process brings certain positive things but it also can create instability of the system. In the time of globalization, individuals are more empowered to bring influence to the system.

For instance, the Mortgage Crisis of 2008 showed how our institutions could not cope with the innovations of the modern finance. Our institution has created rules for the banking system, but many of the financial activities were done by non-banking entities. In other words, these institutions were not

regulated. This is the new form of 'self-regulating market' mentioned by Polanyi. These unregulated financial entities were responsible for the financial crisis of 2008 (Krugman, 2009). Does it mean that there is no way to create institution that solves this problem? In *the Unholy Trinity* (1993), Benjamin Cohen still managed to put trust on institutions to make states come together and find solutions. Nevertheless, globalization make this coordination process becomes more complicated. In order to keep their relevance, institutions should become more creative in order to solve these unprecedented problems. This means we will see more variations in institutions which can be a variation that consistent with the social purpose or variation which is totally *disembedded*. The last will create more problems to the system. How about Brexit or Trump's protectionism?

The Rise of Populism

The reason for arguing the persistence of embedded liberalism is because the recent rise of populism is simply creating shock, not rupture, to the system. It is too soon to argue that embedded liberalism is failing. For now, there is no need to produce a holistic solution for populism. Nevertheless, there are some reforms needed. This part discusses the two main causes for the rise of populism and elaborates several antidotes to it. Altogether, it provides argument that embedded liberalism remains to be a viable solution.

The first cause is the inability of Trade Adjustment Assistance (TAA) to cope with the contemporary economic crises. This compensation had sustained the stability of the system for so long. Sean D. Ehrlich, an Associate Professor of Political Science at Florida State University, has provided several empirical evidences that those who will receive more compensation if they lose their jobs are less likely to oppose trade. But recently, the problem of increased unemployment and lower wages caused by economic crises had created frustration with global economy (Ehrlich, 2016). Therefore, the solutions would be strengthening the international institutions in responding to economic crises and at the same time, states need to keep economic globalization within the scope what TAA can cope with.

Understanding the causes and possible solutions for economic crisis is important not only because the increasing frequency of the crises but also due to severity of the consequences. Some countries have to suffered long recession, unemployment, reduce social expenses, and even experiencing lost generations as Latin America did. Moreover, the crises give the most impact to the poor, marginalized workers, and women. For instance, the 2008 crisis forced many formal workers moved to informal sector that led to more pressure to the existing informal workers (Cohen, 2010).

Those economic crises happen due to the combination of the economic globalization and institution insufficiency instead of merely a monetary problem. Economic globalization manifests in form of rapid capital mobility of across national border based on market efficiency, while institutions here are defined broadly as rules, regulations, and formal organizations that operate under

distinct logic that different from market logic. Economic crises are by product or excesses of the interaction between market and institutions.

The periodic crises in financial system lead us to pose a fundamental question: Do we as a collective have idea what we are doing? It seems it is not solution or tools that we lack of, but more importantly the issue lays on our inability to define the problem properly. Paul Krugman in his book claims that "the only important obstacles to world prosperity are the obsolete doctrines that clutter the minds of men"(Krugman, 2009). It is the scarcity of understanding, and not resources. Furthermore, in the same book he elaborates how conventional economic understanding has been proven to be insufficient.

Traditionally, financial crises are defined as problem on the balance of payment. Balance of payment is a framework to show all international transactions both in term of goods and service and also assets of a country. The problem on balance of payment can manifest in form of large trade deficit which lead to a decrease in production output and foreign reserves. This is a very dangerous situation especially when facing exchange rate risk. As a result, country may face currency crisis as happened in East Asia or debt crisis in Latin America. Both crises are closely related. Currency crisis is the problem when the value of domestic currency falls dramatically against the main world currencies such as US dollar, and debt crisis is inability to repay the loan which in many cases was preceded by the fall of domestic currency.

Economists address several major causes of financial crises. In case of Asian Financial crisis, the causes were waves of over-lending and over-borrowing especially as short term lending in foreign currency, exogenous international shock in form of devaluation of Chinese Yuan, and contagion due to investors panic. Over expansionary fiscal policy led debt crisis of Mexico. Crises did not happen only in developing economies. In the United States, an increase in loan incentives had encouraged borrowers to assume risky mortgages that resulted in the bursting of the United States housing bubble which peaked in approximately 2005–2006. Altogether, some scholars stress on monetary causes, while others focus more on regulatory framework and financial or banking structure as the source of the crises.

Monetarists suggest rescue packages such as loans and grants and debt restructuring are sufficient to overcome the crises. By adding dollar to the country's foreign reserve, the country will be able to peg its currency to the dollar as it should. Along with this loan, the countries should raise the domestic interest rate. For countries with floating or flexible exchange rate system, additional foreign currency will improve its currency and at the same time will increase its capital account so as its GDP (Y), but not so much for countries with fixed exchange rate system. This monetary policy gives stronger impact to countries with flexible rate system (Pugel, 2011).

This was the traditional remedies provided by the IMF during the Asian crisis. Some argues that rather than advising the countries to raise interest rates, the IMF should have told them to simply let their currency decline until they started to look cheap to investor. The massive capital flow was the main cause of the crisis. This was only temporary shock; market should be let alone to correct it (Sachs, 1998).

Nevertheless, the IMF moved further than merely providing rescue packages in the case of Asian Financial Crisis. The IMF also targeted restructuring of banking system in Thailand, South Korea, and Indonesia. The IMF argued that fixing exchange rate was not enough to save East Asian economies. Those countries have a weakly regulated and supervised financial system in which transactions are often decided upon by personal relationship or so called 'crony' capitalism. IMF encouraged the corruption eradication, tight monetary policy and healthy fiscal policy. This view is consistent with the institutional economist such as Krugman who argues that strengthening institutions through regulation is a very important part of solving the crisis (Krugman, 2009).

Due to the advancement of technology and deregulation, capital can move freely without limitation from national jurisdiction. This has created volatility in the system. The global economic system is prone to experience shock. This shock can be something that is 'normal' for some countries, but can be a disaster for other countries. Singapore, Malaysia, and Hong Kong experienced the same economic globalization, but these countries had stronger institution that enable them to perform capital control and more resilient during inflation. Moreover, the discrepancy between countries institutional capabilities creates loopholes that can be exploited by individual actors to gain profits through speculation.

Some scholars argue that globalization was not the cause of the problem. They are arguing that our current globalization has less interconnectedness compares to globalization during the Gold Standard era of 1819-1914. Therefore, rather than globalization, government policy is the one that responsible for its overall national economic performance (Gilpin, 2001). Our current epoch of globalization is fundamentally different from the previous one. The connectivity is more intensive. Currently, we experience more massive and rapid capital mobility rather than in trade. There has been widening gap between financial transaction and trade sector. I do think that we cannot dismiss the current economic globalization as part of the causes of economic crises.

Moreover, the current banking system is more entrenched in the society where almost all transactions are taken through banking network. The major cities were probably more connected through trade previously, but now the geography of global financial system is stretched more widely. There are only small cluster of subsistent economies that are not connected into the global economic system. Almost all are connected and therefore, they are vulnerable of external shock. For instance, the gain from China opening has been enormous. Hundreds of millions of Chinese have move out of poverty, but at the same time global economy has become very dependent on Chinese economy well-being. Therefore, the sudden shock on Chinese economy will give impact to other countries and will amplify globally.

Of course, government as an institution has important role in responding the intensity of economic globalization. Even before the establishment of state, informal institutions had helped the cross-cities trade during medieval time. In the condition where interaction between different communities is high, institutions provide trust which necessary for efficient exchange (Milgrom et.al, 1990). Both formal and informal institutions are necessary for the economic

transaction to exist, especially at the time of a very complex economic globalization. Institutions enable global trade and investments operate efficiently. Moreover, institutions such as Bretton Woods system of 1944 was created to maintain system stability through compromise between international interest with domestic interests, between the benefit to the market and benefit to the people (Ruggie, 1982). The relative success of Bretton Woods system during 1944-1973 can be used as evidence that institutions played crucial role in mitigating economic crises of that time. All in all, these recent periodic crises happened not only because of decrease on country's production output, or even because of speculation but it happened because of the combination of intensity of economic globalization (market) and the weakness of the institutions.

Therefore, there is a need to calibrate the way those institutions work. For instance, it should give more roles for the rising power such as China. Moreover, it should also provide space for various institutions to flourish. Take for example the establishment of Chiang Mai Initiative of ASEAN+3 countries (China, Japan, and South Korea). It was set up as a response of the failure of IMF in solving Asian Financial Crisis. ASEAN countries welcomed the initiative. Embracing new institution does not mean abandoning the old one. Reforming institution is not an easy task, so having alternative would be more practical. Of course, it is too early to assess all institution but in overall, I see this parallel structure likely to be preserved and maintained in the future. Chinese [shadow] foreign policy is not seeking to demolish or exit from current international organizations and multilateral regimes. Instead, it is constructing supplementary — in part complementary, in part competitive — channels for shaping the international order beyond Western claims to leadership.

Moreover, as we have seen that globalization does not simply remove the role of the state. The states should be more proactive in navigating globalization. It is possible thing to do as the nation states are indeed the main actor of global economy and the participants of international agreements. For instance, the US can enforce rule or create incentive on foreign investment in order to bring home the MNCs back and create jobs. The US can also enact rules to manage the immigration: provide citizenship for the illegal immigrant or enforcing the immigration law that has not been fully enforced before (Fukuyama, 2016).

Indeed, maintaining the promise of embedded liberalism is very difficult due to the complexity of globalization. Thomas Friedman (2005) in *The World is Flat* argues that this Globalization 3.0 is an unprecedented epoch in the human history. Due to the advancement of technology, innovation in production, and economic organization we have arrived in a global village. This global village enables for instance, Indians in Bangalore to design sophisticated software and compete with other computer engineers in the West. With the advancement of shipping technique and outsourcing Chinese participate in a global chain of production which enables people around the world access to cheaper product and makes Chinese raise above poverty line. As we can infer from the term 'flat', globalization levels the playing field for everybody globally. While Friedman is very optimistic of this type of globalization, these flatteners are the main concern of the most native-born workers in the West. Their incomes are shrinking and many of them loss their jobs.

Some developing countries benefited from globalization but others have to suffer too. The disappearance of agriculture is one of the problems faced by these countries. They cannot compete with the cheaper product from abroad. Deregulation creates influx of foreign investment to developing countries but at the same time their economies are exposed to the vulnerability of the global economy. This has created a huge social cost.

We cannot convince people about the aggregate benefits of globalization if it will sacrifice some part of the society. There is an ethical situation here. The TAA has been unable to handle this problem by ignoring that providing financial support or training is sufficient. According to Etzioni it ignores the communitarian need. Job is not simply a way to make money but it is identity and pride. He says, "Working in McDonald's or selling merchandise in supermarket does not provide meaningful jobs coal miners, steel workers, others previously took pride in." Moreover, TAA simply provide those replaced workers with low paying jobs. On the other hand, it is not easy to train farmers to become computer programmers (Etzioni, 2017). It means beside navigating economic globalization, states have to adjust their TAA beyond a simply financial concern.

Now we move to the discussion of the second cause of populism with the US as an example. The second cause is the failure of domestic politics. Francis Fukuyama in his latest article on Foreign Affairs (2016) is questioning why the recent populism did not rise earlier. By combining Polanyi's discussion on embedded liberalism and the failure of politics, he argues that populism manifests when there is imbalance between the need of market and population. Like fascism, populism rises because the politics has failed to deliver this balance. In the rise of Donald Trump as Presidential candidate at that time, he argues that it is due to the failure of both political parties of American politics. From the Republican side, their policies on cutting taxes, support inflow immigration has brought benefit for the big business persons and not to the low skilled workers. While on the Democrat side, their policy has become identity politics, which make many of the supporter of populism do not think that the social policy (Obama care) are made for helping these workers (native-white-born low skilled workers).

According to Etzioni, community rebuilding is the answer for this. Communities are under threat because of being swayed by demagogues and fake news. Only rational and reasonable citizens who pay attention to the facts and then draw logical conclusion from it are the ones who are able to refute populism. For this reason, it needs solutions beyond a simple econometrics solution. The solution should be able to re-anchor individuals in the society.

He mentions two issues regarding American experience. Populism rise due to the failure of acculturation of the new immigrants and cultural change driven by extension of individual rights. He calls for acceleration of acculturation process among immigrants in a framework of 'diversity within unity' rather than assimilation. Indonesia's experience can be useful in this matter. It is a combination of partial assimilation and a high level of tolerance for differences with others. Partial assimilation means that the new immigrants do not necessarily abandon their cultural heritage, but they need to embrace core American values in term of adherence to the law, acceptance of democracy as

the way to resolve differences and create public policy, and belief in civility in dealing with others.

The other issue is the cultural attack coming from liberal view on extending individual rights. Many communities have difficulties to accept the legalization of same sex marriage for example. This extension of individual's right has sore up the live of the community. Etzioni points out the gated communities as an example of success. These communities have provided their members social bonding through their shared values. Of course, these communities should be prevented from conducting intolerance acts of discrimination, suppress free speech, and violate rights. But at the same time, they should be allowed to form their own policies. Create rules which give security and stability to the communities. Etzioni calls this as two-layered approach. Altogether, when globalization threatens local communities it is important to have policy and cultural strategies for community build up. It is not sufficient to limit the side effect of globalization with financial compensation.

Conclusion

Since the post-war era to the present, countries have set up various international institutions to solve the global problem. From World War II to the present, states have constructed regimes to manage some-but not all-aspects of the international economy. A once-strong regime to manage trade has weakened since the 1990s. Likewise, with the abandonment of dollar-gold convertibility in 1973, a robust regime to manage monetary relations collapsed. Conversely, states originally left finance unregulated but in 1988 created and progressively have strengthened rules to manage international banking. And in production, the proposed Multilateral Agreement on Investment collapsed in 1998 without ever securing necessary multilateral support. Those institutions have fulfilled their specific purpose of creating economic stability, prosperity and development and broader purpose of maintaining global peace.

In order to understand the variations in these institutions for the last 70 years, we need to properly define the essence of the institutions. International institution is a social framework where national interests converge and create solution for collective action problem. This definition implies the interaction between 'the social' and 'interest'. The social means that there is value or purposes that tie these countries together, while interest means that the state as the unit of this institutions have certain goal and try to achieve with the mean that they have which is power.

In other words, we need to analyze the power relations and underlying social purposes in order to understand the variations in institutions. I argue that the variations mentioned above are not substantial variations. It shows the changes in the power relations but not so much on the social purposes. Even if China or other countries replace the US as the new *hegemon*, arguably they will sustain the current system of embedded liberalism. Richard Rosecrance suggests that given the process of 'full-throated globalization in which there will be strong economic interdependence among countries. China has fully embraced economic globalization since her entry into the World Trade Organization (WTO)

in December 2001, and its linkages to global economy are set to deepen still further in the future. Moreover, China has been played a crucial role in sustaining the system through many institutional initiatives. Many countries embrace and support the alternative system promoted by China because the old system is not sufficient. All in all, those various institutions are important tools used to adapt to the new situations in order to be congruent with the main purpose of embedded liberalism.

Mass immigration is the trigger that set off authoritarian impulses of many nations according to social psychologist Jonathan Haidt. Moreover, immigration is part of globalization process which cannot be resolved simply by closing the border. There is a need for a respond to mitigate its externalities. As community will survive by having stability, continuity and shared values, the solution lies not on public policy but on cultural strategy. In American context, there is a need for an accelerated acculturation for the immigrants in a framework of 'diversity within unity'. It is a partial assimilation in term of embracing American core values of rule of law, democracy and civility, and high level of tolerance. Indonesia's experience should be an important lesson in this respect. Moreover, there is a need to have a comprehensive policy and cultural strategy which nurture the communities. These strategies should allow the improvement of individual's right but at the same time, it sustains and builds community's autonomy.

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