ITI 1202: Introduction to Global Politics

Unit 6: Fundamentals of International Political Economy

What is International Political Economy?

- For the student or scholar of international politics, there are three basic questions. Why do states trade? What are the benefits of trade? Who gets the benefits of trade?
- The answer seems obvious: People buy things from abroad because they are cheaper, and people sell things abroad to make more profits.
- It is essential to understand the benefits of trade in order to understand states' motives for preserving trade despite the trouble it often causes.

Key Economic Concepts and Theories

- There is a complex relationship between politics and economics, and between states and markets.
- That relationship is the subject of IPE. There are different theoretical ways of approaching the connection between politics and economics.
- However, three theories which most scholars see as the main theories of IPE are mercantilism, economic liberalism, and Marxism.

Realism – Mercantilism

- Realist analysis of IPE, like realist analysis more broadly, deals with the interests of the state, not with the interests of individuals within the state or with economic efficiency.
- This emphasis on state economic interests underlies variants of realism such as mercantilism (prominent in the sixteenth through the nineteenth centuries), economic nationalism (nineteenth and twentieth centuries), and protectionism, or neomercantilism (twentieth and twenty-first centuries).

Realism – Mercantilism

- All of these doctrines share a focus on state goals, a concern with the distribution of the gains from trade, and an emphasis on the conflictual nature of international trade.
- Mercantilism – the theory is intimately connected to the establishment of the modern, sovereign state during the sixteenth and seventeenth centuries.
- Mercantilism was the world view of political elites that were at the forefront of building the modern state.

Realism – Mercantilism

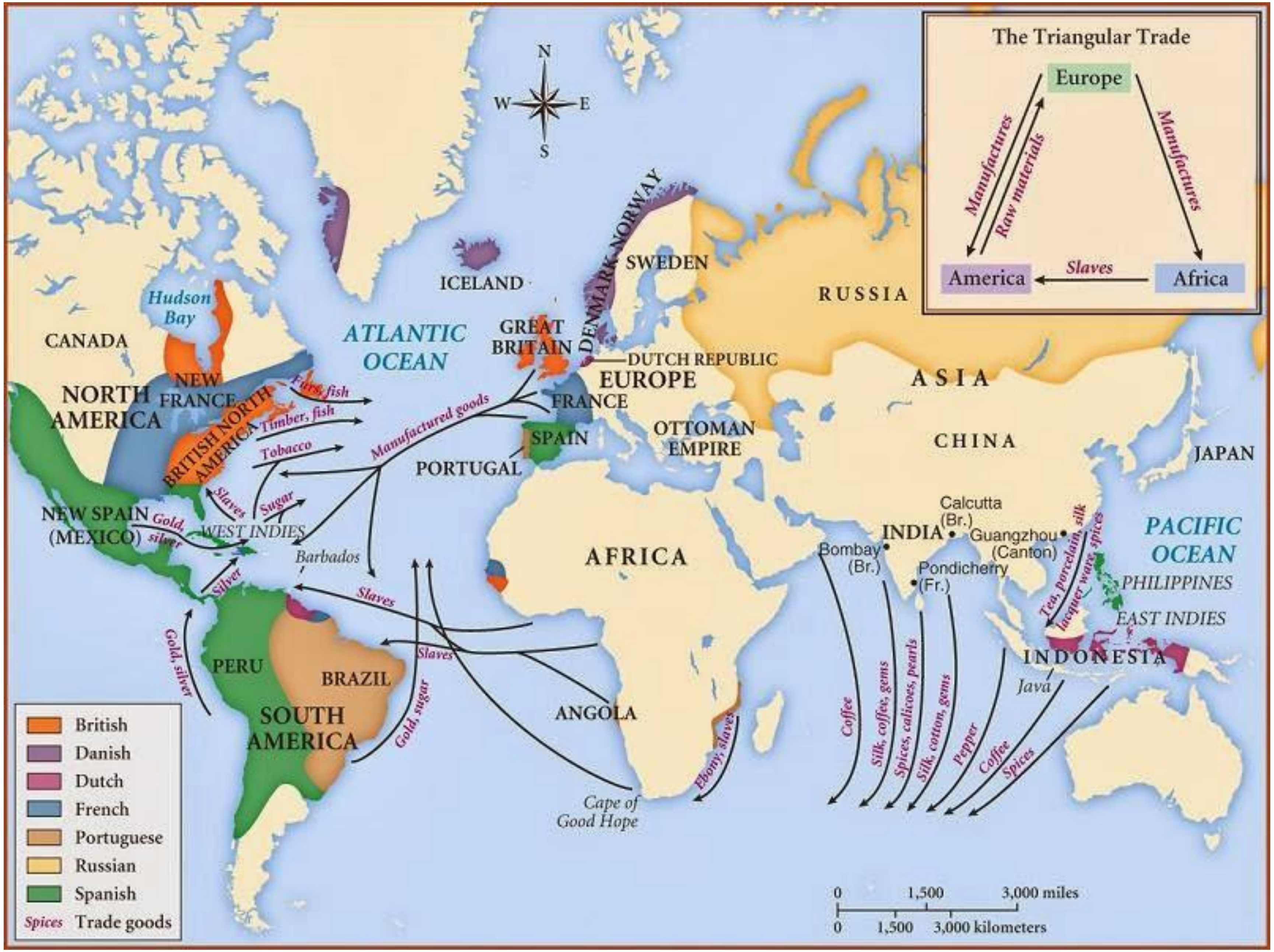
- They took the approach that economic activity is and should be subordinated to the primary goal of building a strong state.
- In other words, economics is a tool of politics, a basis for political power. That is a defining feature of mercantilist thinking.
- Mercantilists see the international economy as an arena of conflict between opposing national interests, rather than an area of cooperation and mutual gain.

Realism – Mercantilism

- In brief, economic competition between states is a ‘zero-sum game’ where one state’s gain is another state’s loss.
- States have to be worried about relative economic gain, because the material wealth accumulated by one state can serve as a basis for military—political power which can be used against other states.
- Economic rivalry between states can take two different forms. The first is called defensive or ‘benign’ mercantilism.

Realism – Mercantilism

- In this form, states look after their national economic interests because that is an important ingredient of their national security; such policies need not have overly negative effects on other states.
- The other form, however, is aggressive or 'malevolent' mercantilism.
- States attempt to exploit the international economy through expansionary policies; For example, the imperialism of European colonial powers in Asia and Africa.


The Triangular Trade
Europe
America
Africa
Manufactures
Raw materials
Manufactures
Slaves
N
S
E
W
ICELAND
SWEDEN
DENMARK-NORWAY
RUSSIA
Hudson Bay
CANADA
ATLANTIC OCEAN
GREAT BRITAIN
DUTCH REPUBLIC
EUROPE
ASIA
NORTH AMERICA
NEW FRANCE
BRITISH NORTH AMERICA
Furs, fish
Timber, fish
Tobacco
Manufactured goods
FRANCE
SPAIN
PORTUGAL
OTTOMAN EMPIRE
CHINA
JAPAN
Slaves
Sugar
NEW SPAIN (MEXICO)
Gold, silver
WEST INDIES
Barbados
Silver
Slaves
AFRICA
INDIA
Calcutta (Br.)
Guangzhou (Canton)
Bombay (Br.)
Pondicherry (Fr.)
Tea, porcelain, silk
lacquer ware, spices
PACIFIC OCEAN
PHILIPPINES
EAST INDIES
INDONESIA
Java
Gold, silver
PERU
BRAZIL
Slaves
SOUTH AMERICA
Gold, sugar
ANGOLA
Ebony, slaves
Cape of Good Hope
Coffee
Silk, coffee, gems
Spices, calicoes, pearls
Silk, cotton, gems
Pepper
Coffee
Spices
British
Danish
Dutch
French
Portuguese
Russian
Spanish
Spices Trade goods
0 1,500 3,000 miles
0 1,500 3,000 kilometers

Realism – Mercantilism

- Mercantilist thus see economic strength and military—political power as complementary, not competing goals, in a positive feedback loop.
- The pursuit of economic strength supports the development of the state's military and political power; and military—political power enhances and strengthens the state's economic power.

Realism – Mercantilism

- In sixteenth-century, Spain benefitted from the supply of gold and silver bullion from the Americas; that led them to call for the acquisition of bullion as the main road to national wealth.
- Later, the Netherlands emerged as the leading country in Europe mainly because of its vast overseas trading empire.
- Ever since Britain obtained a leading role in world politics through industrialization, mercantilists have underlined the need for countries to industrialize as the best way to obtain national power.

Realism – Protectionism

- Alexander Hamilton, one of the founding fathers of the United States, was a strong proponent of mercantilism in the form of protectionist policies aimed at promoting domestic industry in the United States.
- Friedrich List, a German economist, developed a theory of ‘productive power’ which stressed that the ability to produce is more important than the result of producing. In other words, the prosperity of a state depends not primarily on its store of wealth, but on the extent to which it has developed its ‘powers of production’.

Realism – Protectionism

- States that want to protect domestic producers against competition from foreign firms can do so through a variety of measures, collectively known as protectionism.
- Protection can be aimed at specific industries or at the entire economy. In some cases, an industry is protected because it employs so many people that unemployment would rise considerably were the industry to fail.
- Protection of a specific industry can be accomplished through a variety of means

Realism – Protectionism

- Quota – a numerical limit placed on the amount of a certain item that can be imported. In the 1980s, a quota was placed on Japanese automobiles imported into the United States in order to protect U.S. auto firms.
- Tariff – this is simply a tax on imports. By adding to the cost of imported goods, the tariff makes it easier for domestic producers to compete.
- Subsidies – these are direct payments to producers to help them remain profitable. Subsidies are often reduce foreign competition, whether they are intended to or not.

Realism – Protectionism

- Any type of regulation that create more difficulty for importers that domestic producer. For example, European Union restrictions on genetically modified crops (GMO), etc.
- Recent mercantilist thinking focuses on the successful 'developmental' states in East Asia: Japan, South Korea, Taiwan, and China. They emphasize that economic success has always been accompanied by a strong, commanding role for the state in promoting economic development.

Realism – Protectionism

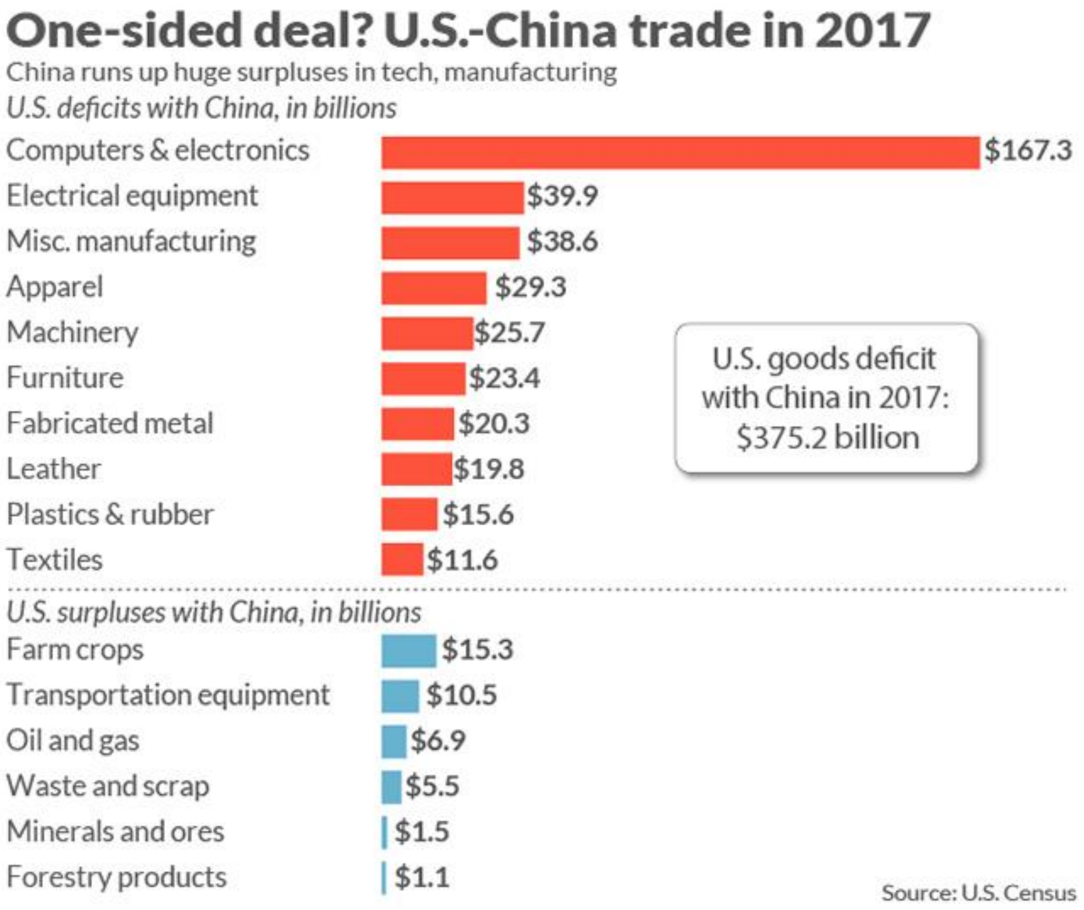
- The state has singled out strategic industries, protected them from outside competition, and supported their development even by regulating the competition between firms.
- The doctrine of focusing on trade policy on the balance of trade is known as neomercantilism.
- It is the belief that states should seek a trade surplus. This focus on the balance of trade makes trade a zero-sum game, as it was for traditional mercantilists.

Realism – Neomercantilism

- The key point about exchange rates and the balance of trade is that if states put a high priority on achieving a trade surplus, they can manipulate their currency price to boost trade.
- By lowering interest rates, printing more money, or selling reserves of its own currency, a government can deliberately reduce the value of its currency (or devalue the currency) relative to others.
- Imports become more expensive, and hence decrease.

Realism – Neomercantilism

- At the same time, the devaluing country's products become comparatively cheaper, and exports increase.
- In summary, mercantilism posits the economy as subordinate to the polity and, particularly, the government.



Realism – Summary

- Economic activity is seen in the larger context of increasing state power. The organization that is responsible for defending and advancing the national interest, namely the state, rules over private economic interests.
- Wealth and power are complementary, not competing goals.
- Economic dependence on other states should be avoided as far as possible. When economic and security interests clash, security interests have priority

Economic Liberalism

- Economic Liberalism Economic liberalism emerged as a critique of the comprehensive political control and regulation of the economic affairs and reject theories and policies that subordinate economics to politics.
- Adam Smith (1723-90), the father of economic liberalism, believed that markets tend to expand spontaneously for the satisfaction of human needs—provided that governments do not interfere. He builds on the body of liberal core ideas include the rational individual actor, a belief in progress and an assumption of mutual gain from free exchange.

Economic Liberalism

- Smith also adds that the economic marketplace is the main source of progress, cooperation, and prosperity. Political interference and state regulation, by contrast, are uneconomical, retrogressive, and can lead to conflict.
- Liberal economics has been called ‘a doctrine and a set of principles for organizing and managing economic growth, and individual welfare’. It is based on the notion that if left to itself the market economy will operate spontaneously according to its own mechanisms or ‘laws’.

Economic Liberalism

- These laws are considered to be inherent in the process of economic production and exchange. One example is the 'law of comparative advantage' developed by David Ricardo (1772-1823).
- He argued that free trade—i.e., commercial activities that are carried on independently of national borders—will bring benefits to all participants because free trade makes specialization possible and specialization increases efficiency and thus productivity. By specializing and trading, states and individuals can increase overall consumption and efficiency.

Economic Liberalism

- Paul Samuelson – “Whether or not one of two regions is absolutely more efficient in the production of every good than is the other, if each specializes in the product in which it has a comparative advantage (greatest relative efficiency), trade will be mutually profitable to both regions.”
- In a world economy based on free trade all countries will benefit through specialization and global wealth will increase.

Ricardo’s Comparative Advantage

Hours of Work Needed to Produce 1 Unit

Country	Cloth	Wine
England	100	120
Portugal	90	80

Both countries are better off trading with each other than existing in isolation

Economic Liberalism

- The central actor is the individual as a consumer and a producer. The marketplace is the open arena where individuals come together to exchange goods and services.
- Individuals are rational in pursuing their own economic interests. and when they apply that rationality in the marketplace, all participants gain.
- Economic exchange via the market is thus a positive-sum game: everybody gains more than they put in because of increased efficiency.

Economic Liberalism

- Individuals and companies would not be active in the marketplace unless it were to their benefit.
- Liberal economists find that this view of individuals as rational and self-seeking (wanting to make themselves better off) can be used as a starting point for understanding not only market economics but also politics.
- Early economic liberals called for laissez-faire, i.e., for the freedom of the market from all kinds of political restriction and regulation.

Economic Liberalism

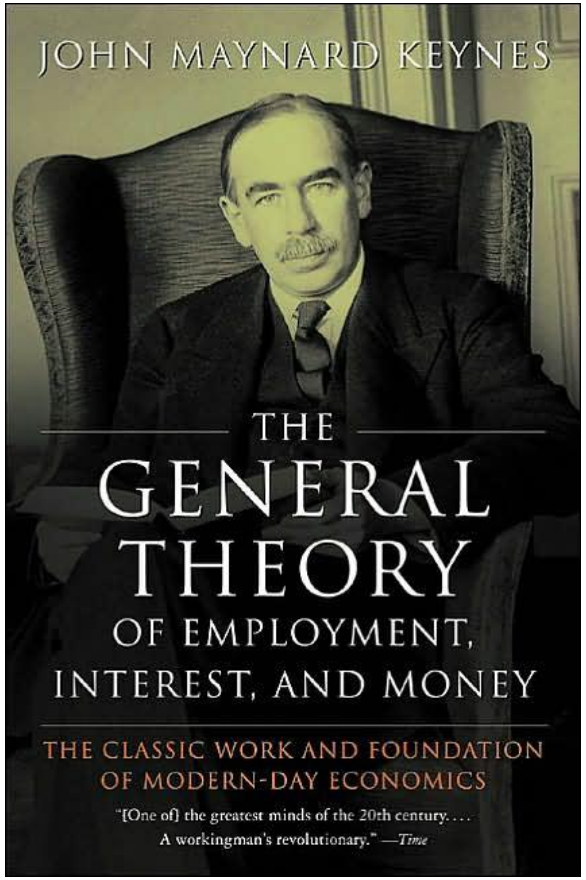
- However, laissez-faire does not mean the absence of any political regulation whatsoever; it means that the state shall only set up those minimal underpinnings that are necessary for the market to function properly. This is the classical version of economic liberalism.
- At the present time this view is also put forward under labels such as ‘conservatism’ or ‘neoliberalism’.
- The economic policies of Margaret Thatcher in Britain and of Ronald Reagan in the United States were both based on classical laissez-faire doctrines.

Economic Liberalism

- Economic liberals have from early on been aware that in some cases the market may not work according to expectations of efficiency and mutual gain; such cases are usually called instances of ‘market failure’, Political regulation may be necessary to correct or avoid market failures.
- Some economic liberals thus argue for a larger degree of state interference in the market. John Stuart Mill was in many ways a laissez-faire economic liberal, but he was also critical of the extreme inequalities of income, wealth, and power that he observed in Britain.

Economic Liberalism

- In the 1930s, John Maynard Keynes, the leading economist of the early twentieth century, went one step further. According to Keynes the market economy is a great benefit to people, but it also entails potential evils of risk, uncertainty and ignorance'. That situation could be remedied through improved political management of the market. Keynes thus argued in favor of a market which was 'wisely managed' by the state.



Economic Liberalism

- This positive view of the state amounted to a major shift in liberal economic doctrine and was popular in Europe in the decades following the Second World War.
- In the 1980s, however, the pendulum swung back to classical laissez-faire liberalism. One major reason for this renewed liberal faith in the unfettered market is the belief that economic globalization will bring prosperity to all.

Economic Liberalism – Summary

- In summary, economic liberals argue that the market economy is an autonomous sphere of society which operates according to its own economic laws.
- Economic exchange is a positive-sum game and the market will tend to maximize benefits for the rational, self-seeking individuals, the households, and the companies that participate in market exchange.
- The economy is a sphere of cooperation for mutual benefit among states as well as among individuals.

Economic Liberalism – Summary

- The international economy should thus be based on free trade.
- Classical liberal economists view the role of the state as that of leaving the market alone, including international markets as well as national markets: laissez-faire.
- But some twentieth- and twenty-first-century economic liberals favor increased state involvement in the marketplace.

Economic Structuralism

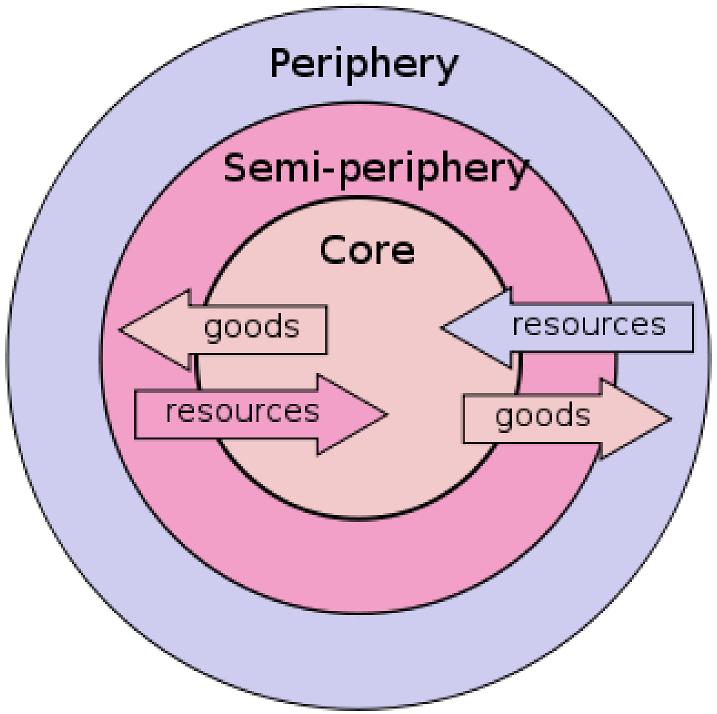
- For economic structuralists, the fundamental actors in politics are not states, but classes.
- Economic structuralism therefore asks about the effects of the international economy on different classes, spotlighting its effects on the poor.
- For this reason, much of the practical agenda of economic structuralist international political economics has involved issues of underdevelopment and poverty in the Third World.

Economic Structuralism

- Economic structuralists, like realists, ask, "What determines how the gains from trade are divided?" Like realists, economic structuralists emphasize that power determines how the gains from trade are divided.
- When rich and poor countries trade or when transnational corporations hire poor workers in the third world, the poorer actor is always more desperate than the richer one. The richer actor is able, therefore, to bargain for a disproportionate share of the gains.

Economic Structuralism

- The history of IPE can thus be seen by Marxists as the history of capitalist expansion across the globe. Lenin, the Communist leader of the Russian Revolution of 1917, analyzed this process.
- He argued that the process of capitalist expansion must always be unequal or uneven, between countries, industries, and firms.



Economic Structuralism

- Economic structuralism examines closely how the dynamics function over time. If one actor starts out wealthier than another, then the wealthy actor, being less desperate, will be able to bargain for a greater part of the gains from trade.
- Because the rich actor gains more, the gap between the two actors' wealth is larger after the transaction than before. When the same two actors meet again, the increased disparity in wealth makes the bargaining position of the wealthy actor even stronger, and it bargains for a still bigger share of the gains from trade.

Economic Structuralism – Summary

- Over time, therefore, economic structuralist analysis predicts that the gap between the wealthy and the poor will widen, rather than narrow.
- Two important points emerge from this analysis. First, the assertion that gaps in wealth increase over time puts economic structuralist analysis in direct opposition to liberal analysis. Where liberal analysis shows how economic disparities tend toward equilibrium in a free market, economic structuralist analysis predicts that disparities will widen.

Economic Structuralism – Summary

- Second, in the economic structuralist view, once a disparity is established, it tends to be self-perpetuating.
- From this perspective, even where colonialism ended decades or centuries ago, the effects of colonialism are still being felt and will not go away by themselves over time.