

International Political Economy

What is IPE?

- ❑ Basically our lives are about political economy.
- ❑ To survive we need food, clothes, and many other goods.
- ❑ We obtain these provisions in the marketplace, paying for them with money we have earned.
- ❑ Modern markets are based on rules.

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What is IPE?

- ❑ Indeed, political rules and regulations constitute a framework within which the market functions.
- ❑ As the same time economic strength is an important basis for political power.
- ❑ If economics is about the pursuit of wealth and politics about the pursuit of power, the two interact in complicated and puzzling ways.

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What is IPE?

- ❑ It is this complex interplay in the international political context between politics and economics, between states and markets, which is the core of IPE.
- ❑ International political economics (IPE) is the study of the interrelationship between politics and economics.

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The Advent of IPE

- ❑ IR 's focus originally was on questions of war and peace
- ❑ That focus continued in the 1950s and 1960s in the context of the Cold War
- ❑ IR in the end was about 'high politics'
- ❑ Another reason: separation between political sphere of the state and an economic sphere of the market is a feature of modern capitalist society.

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However

- ❑ States and markets cannot be separated.
- ❑ Indeed, many kinds of political regulation concerning contracts, consumer and producer protection, taxation, working conditions, make up the framework with which the 'free market' functions.
- ❑ Politics and economics are entangled in complex ways, even in the most liberal 'free market' economies.

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The Advent of IPE

- ❑ The sharp distinction between politics and economics is increasingly questioned from the beginning of the 1970s on.
- ❑ Increasing transactions among national economies;
- ❑ A rapid growth in national government responsibility for economic policies;
- ❑ Economic issues becoming more visible to individuals and groups.

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Contending Theoretical Approaches

- ❑ Realism: Statism or Mercantilism
- ❑ Economic Liberalism
- ❑ Radicalism: Marxist and Dependency Alternatives

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PARADIGM IN BRIEF

The Statist Perspective on the IPE

Views of human nature	Humans are aggressive; conflictual tendencies
Economics Goals	State power
Nature of Economics	Conflictual, zero-sum
Relationship between economics and politics	Politics decisive

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PARADIGM IN BRIEF

The Statist Perspective on the IPE

Relationship between individuals, society, state, market	Goal is to increase state power, achieved by regulating economic life; economics is subordinate to state interests
Relationship between domestic and international society	International economy is conflictual; insecurity of anarchy breeds competition; state defends itself

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PARADIGM IN BRIEF

The Liberal Perspective on the IPE

Views of human nature	Individuals act in rational ways to maximize their self-interest
Economics Goals	Individual welfare
Nature of Economics	Competitive, non-zero sum
Relationship between economics and politics	Economic autonomous

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PARADIGM IN BRIEF

The Liberal Perspective on the IPE

Relationship between individuals, society, state, market	When individuals act rationally, markets are created to produce, distribute, and consume goods; markets function best when free of government interference
Relationship between domestic and international society	International wealth is maximized with free exchange of goods and services; on the basis of comparative advantage, international economy gains

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PARADIGM IN BRIEF	
The Radical/Marist Perspective on the IPE	
Views of human nature	Naturally cooperative as individuals; conflictual in groups
Economics Goals	Class interests
Nature of Economics	Conflictual, zero-sum
Relationship between economics and politics	Economics decisive

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PARADIGM IN BRIEF	
The Radical/Marist Perspective on the IPE	
Relationship between individuals, society, state, market	Competition among groups, particularly between owners of wealth and laborers; conflictual and exploitative
Relationship between domestic and international society	Conflictual relationships because of inherent expansion of capitalism; seeks radical change in international economic system

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Interdependence and International Peace

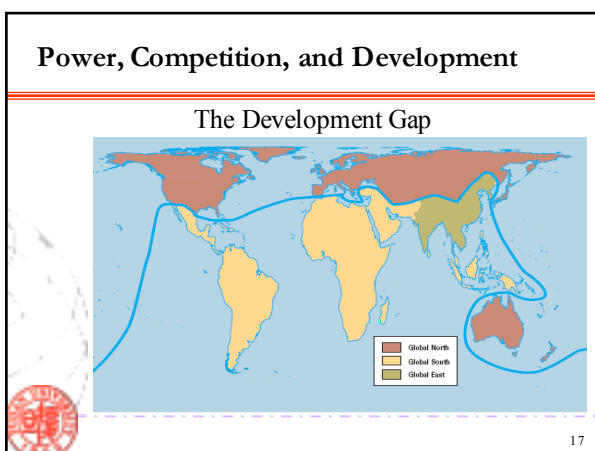
- **Interdependence is mutual dependence, or a shared reliance between two states.**
 - ❑ Sensitivity: opportunity cost
 - ❑ Vulnerability: exit cost
- ❑ Asymmetrical interdependence is a source of power.

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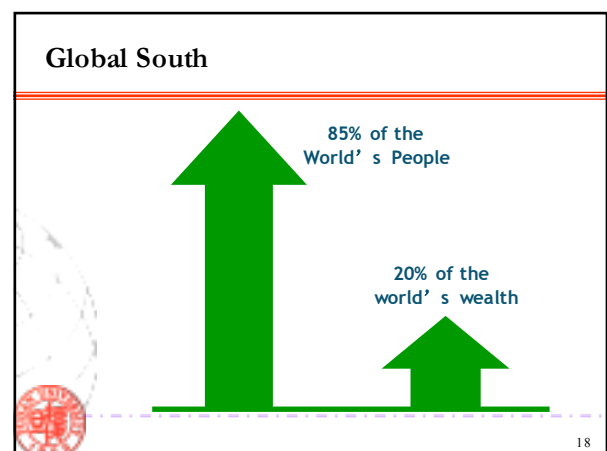
Interdependence and International Peace

- **Complex interdependence:**
 - ❑ Multiple channels connecting states
 - ❑ Multiple issues with no hierarchy
 - ❑ The use of military force generally avoided
- ❑ Is international interdependence conducive to peace?

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Power, Competition, and Development

➤ The Development Gap

❑ Liberal interpretation:

- The gap is successfully being bridged.
- The average per capita incomes in developing countries have doubled.
- The GNPs of some economies have grown by more than 500 percent.



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Power, Competition, and Development

➤ The Development Gap

❑ Radical interpretation:

- The gap is increasing.
- The richest 20 percent has 86 percent of world income.
- The poorest 20 percent has 1.1 percent of world income.



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Power, Competition, and Development

➤ The Development Gap

❑ Modernization theory: Reasons for underdevelopment are internal deficiencies.

❑ Dependency theory: Reasons for underdevelopment are external.

❑ The Washington Consensus: Free market approach is optimal.



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Power, Competition, and Development

➤ Competitive Trading Blocs

❑ The European Union

- European Coal and Steel Community in 1952
- European Economic Community (EEC) in 1957
- European Union (EU) in 1992



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Power, Competition, and Development

➤ Competitive Trading Blocs

❑ The North American Free Trade Agreement

- NAFTA was established by the United States, Canada, and Mexico in 1994
- The social, political, and security dimensions we saw in the European Union are absent from NAFTA.



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Power, Competition, and Development

➤ Competitive Trading Blocs

❑ The Association of Southeast Asian Nations

- ASEAN was established by Indonesia, Malaysia, Philippines, Singapore, and Thailand in 1967
- Brunei joined 1984, Vietnam 1995, Lao and Myanmar 1997, Cambodia 1999.



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Power, Competition, and Development

➤ Competitive Trading Blocs

❑ Liberal interpretation:

- The economic welfare of the member states would be enhanced by regional integration.

❑ Statist interpretation:

- The establishment of a common external barrier provides the state with a privileged position in competition.

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The Role of Institutions in Managing Power, Competition, and Development

➤ Three different kinds of institutions involved in the policy debates over international economic issues:

- ❑ The intergovernmental organizations
- ❑ Multinational corporations
- ❑ Nongovernmental organizations

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The Role of Institutions in Managing Power, Competition, and Development

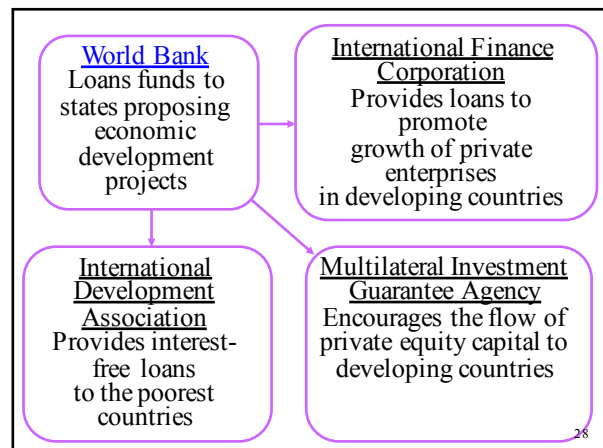
➤ The Bretton Woods Institutions

- ❑ The World Bank
- ❑ The International Monetary Fund
- ❑ The World Trade Organization

➤ The World Bank

- Stimulating Economies

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➤ The International Monetary Fund

- Stabilizing Economies

International Monetary Fund (IMF)

Original purpose was to guarantee exchange-rate stability.

Purpose is to act as lender of last resort to keep debtor countries from collapsing

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➤ GATT and the WTO -- Managing Trade

International Trade Organization
(was not formed)

General Agreement on Tariffs and Trade (GATT)

Series of multilateral trade negotiations designed to stimulate trade by lowering trade barriers

World Trade Organization (WTO)

Replaced GATT as forum for negotiating new trade agreements. Includes stronger dispute-settlement procedures

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The Role of Institutions in Managing Power, Competition, and Development

➤ Role of economic institutions:

- ❑ To liberals, institutions develop and shape policy debates, make commitments credible, reduce transaction costs, and ensure reciprocity among participants.
- ❑ To radicals, these same institutions are exploitative actors in the stratified international economy.



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The Role of Institutions in Managing Power, Competition, and Development

➤ Multinational corporations

❑ Liberal interpretation:

- MNCs are the vanguard of the liberal order, stimulating development.
- MNCs are the transmission belt for capital, ideas, and economic growth.
- MNCs should act independently of states, perhaps replacing states in the long term.



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The Role of Institutions in Managing Power, Competition, and Development

➤ Multinational corporations

❑ Statist interpretation:

- MNCs at the service of the state can be powerful allies.
- But when MNCs act contrary to state political interests, they become dangerous agents.
- MNCs are an economic actor to be controlled by home and host states.



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The Role of Institutions in Managing Power, Competition, and Development

➤ Multinational corporations

❑ Radical interpretation:

- MNCs are instruments of exploitation and imperialism.
- MNCs embody the inherent inequality and unfairness of the international economic system.
- Both state and international regulation on MNCs is necessary.



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The Role of Institutions in Managing Power, Competition, and Development

➤ Nongovernmental organizations

❑ NGOs is new actors in the IPE.

- ❑ NGOs helped to formulate the whole notion of sustainable development.
- The developing world should finding new, more environmentally safe ways to foster development.



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In Sum: Economic Convergence and Divergence

➤ Beliefs about economic theory began to converge.

- ❑ The principles of economic liberalism proved more effective at raising the standard of living of people worldwide.
- ❑ The radical alternatives did not prove viable.
- ❑ Statist alternatives, however, remained attractive to many states.



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**In Sum:
Economic Convergence and Divergence**

➤ **Divergence over issues in the IPE continues.**

- ❑ The gaps within states and between the North and the South.
- ❑ The soundness of sustainable development.
- ❑ The role of the IMF and the World Bank.
- ❑ The impacts of MNCs and NGOs on economic growth.

