

Chapter Three

International Political Economy (IPE)

Objectives

- ✓ Explain the meaning and nature of International Political Economy (IPE).
- ✓ Identify and analyze the most influential theoretical perspectives of International Political economy.
- ✓ Identify the most common national political economy systems/models in the world and their major divergences.
- ✓ Identify and examine the core issues, governing institutions and governance of International Political Economy (IPE).

Introduction

What is the concern of IPE

The study of Political Economy has always been dominated by a national or/and international level debate over the responsibilities of the state with regard to the economy.

Domestic level debate

- ✓ The debate is should ***the state be responsible*** for determining how the economy of a given country be organized? Or
- ✓ Should such responsibility ***be left to the market*** which is populated by self-serving individuals acting as private agents?
- ✓ Should housing, medical care, education, welfare be provided by private citizens using the resources they have available to them? Or should they be provided by the state?

International level debate

- ✓ How should international trade be governed?
- ✓ How should international investment be governed?
- ✓ How should international finance be governed?
- ✓ What should be the role of international financial institutions?

Meaning and Nature of International Political Economy (IPE)

First, there is no universal agreement on how **IPE** should be defined. The factors are:

1. Tension between number of actors
2. the question whether state is the only political society vs. non-state actors
3. the presence of two contending definitions of IPE
 - One is state-centered definition of IPE
 - Marxist definition of IPE- against state
4. the use of the term International in the concept. The concept

International applies only to relations between and among sovereign states (195+).

Hence, IPE's definition is getting ever widened and deepened in content and even the name of the field is changing from IPE to GPE (Global Political Economy).

Because of the above factors a narrower definition of IPE was adopted.

A broader definition of IPE

IPE is a field of inquiry that studies the ever-changing relationships between governments, businesses, and social forces across history and in different geographical areas.

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IPE consists of two central dimensions namely: the political and economic dimension.

A political dimension

- accounts for the use of **power** by a variety of actors, including individuals, domestic groups, states (acting as single units), International organizations, non-governmental organizations (NGOs), and Transnational corporations (TNCs). All these actors make decisions about the distribution of tangible things such as money and products or intangible things such as security and innovation.

It involves **how states and societies achieve their goals.**

“ Politics determines the framework of economic activity.” —Robert Gilpin

The economic dimension deals with how scarce resources are distributed among individuals, groups, and nation-states.

- economists, political scientists, and historians are considered as the intellectual entrepreneurs or founders of IPE.

Theoretical Perspectives of International Political Economy

There are three major theoretical (often ideological) perspectives regarding the nature and functioning of the International Political economy.

These are: **liberalism**, **Marxism**, and **nationalism** (mercantilism) these are taken as foundational theories of International Political Economy

1. Mercantilism/Nationalism

- is the oldest of the three, dating back as early as the 16th century
- Friedrich List(1789–1846) is considered as the intellectual father of mercantilist thought.
- It was a thought in response to classical economics and, more specifically, to Adam Smith's (1723–1790) classical **liberal perspective**.
- defends a strong and persistent role of the state in the economy – both in domestic and international trade, investment and finance.
- emphasizes the importance of **balance-of-payment** surpluses in trade
- it often promotes an extreme policy of **autarky** to promote national economic self-sufficiency.
- It defends interventionist role of the state in the economy-for example, identifying and developing strategic and targeted industries **vital to long-term economic growth** via **tax policy**, **subsidization**, **banking regulation**, **labor control**, and **interest-rate management**.

2. Liberalism

- is a contemporary and mainstream perspective in International Political Economy
- it defends the idea of **free market system** (i.e. free trade/trade liberalization and free financial and Foreign Direct Investment (FDI) flows.
- it argues that removing impediments (barriers) to the free flow of goods and services among countries is the foundational value and principle of liberalism.
- it argues that free trade reduces prices, raises the standard of living, makes a wider variety of products available, and contributes to improvements in the quality of goods and services.
- It believes that removing barriers to the free movement of goods and services among countries would encourage to specialize in producing certain goods and services.
- It argues that **specialization** on certain goods and services contributes for optimum utilization of limited resources based on **comparative advantage**.
- **However, countries' comparative advantages have faced problems from economic globalization, the role and growth of transnational or multinational corporations(TNCs / MNCs) high production costs, arbitrary specialization, unfair government and corporate policies.**

All the above factors shift the conventional theory of comparative advantage to what is known as competitive advantage.

Finally, in order to protect their own companies, states have been engaged in **protectionist policies**. For example: the case of European Union (EU) and US protectionist policies and subsidization for their agricultural and airline industries against other competitive firms.

3. Marxism

- is the youngest of the three and is advanced by **Karl Marx** who emerged as a critique of classical economics aka free market or liberalism.
- In today's world the relevance of Marxism greatly declined, and liberalism has experienced a relatively considerable growth in influence; but it has been serving as an analytical tool and ideological critique of capitalism and its shortcomings.
- It argues that Global and national income inequality remains extreme:
- It argues that the capitalist class at domestic level exploit the other classes.
- Internationally, the capitalist countries and the developed world systematically exploit the poor and developing countries; which has resulted in **global inequality**.
- It argues that all global economic and social crises are resulted because of the capitalist economic system which it totally focuses on ***profit making***.

Contemporary Theories of International Political Economy

1. Hegemonic Stability Theory (HST)

- Is a hybrid theory containing elements of mercantilism, liberalism and Marxism
- However, it's more associated with mercantilism.
- It argues that the root cause of the economic troubles that caused Great Depression of the 1920s and 1930s was the absence of a benevolent hegemon—a dominant state willing and able to take responsibility to solve economic crisis.
- HST argues that hegemony is both necessary and sufficient to ensure global stability.
- HST has influenced the establishment of the Bretton Woods Institutions (IMF and WB)- both being the products of American power and influence in the post-WWII world.
- Even after the World War II effect had vanished, the United States maintained a substantial lead over global economy and even reinforced by the collapse of the Soviet Union which left the United States as the world's last remaining power to have a say in global economy and still dominated all the key structures of the global economy.

Question for reflection

1. Can the US continue to be a global hegemon?
2. Which countries are resigning to challenge US's dominance of global economic power?

2. Structuralism

- is a variant of the Marxist perspective and aims to diagnose the specific structural problems of liberal capitalist economic system.
- It focuses on **center-periphery** (dependency) relationship between the Global North and the Global South which permanently resulted in an “unequal (trade and investment) exchange.”
- it advocates for a new pattern of development based on industrialization via import substitution based on protectionist policies.

3. Developmental State

- Is a variant of mercantilism developed as a response to the failure of neo-liberal development paradigm in solving economic problems in developing countries.
- it advocates for the strong role of the state in the process of structural transformation.
- **developmental state** refers to a state that intervenes and guides the direction and pace of economic development.

Core features of developmental state

- ✓ **Strong interventionism** in tax , credits, subsidies, import controls, export promotion, direct financial and credit policies instrumental to industry and trade.
- ✓ **Strong bureaucratic apparatus** to efficiently and effectively implement the planned process of development.
- ✓ **Existence of active participation and response of the private sector to state intervention.**
- ✓ **Regime legitimacy** built on development results and fair distribution of the fruit of dev't.