

# Course 9

The Changing International Political  
Economy

# What Is IPE?

- Michael Veseth: study of a *problématique* (set of related problems), including:
  - Political economy of international trade;
  - International finance;
  - North-South relations;
  - Multinational corporations;
  - Hegemony.
- New IPE – transcends limites of int'l politics and economics

# What is IPE?

## **Thomas Oatley:**

“International Political Economy (IPE) studies how politics shape developments in the global economy and how the global economy shapes politics”

## **Christakis Georgiou:**

“What is international political economy? International political economy focuses on the politics of economic phenomena that transcend state borders, whether be they trade transactions, exports imports, protectionism, tariffs, non-type barriers, production, the way multinational corporations operate across state borders and finance; with finance, the way money and capital can cross state borders and also; but also labour and migration”



- Trade
- Capital flows
- Fiscal deficit, austerity
- XR regime, undervaluation
- Currency collapse
- ...

## POLITICS

## ECONOMICS



- Interest group power
- Electoral institutions
- Government ideology**
- GATT/WTO, court rulings
- War
- ...

Source: based on C. Georgiou, 2019

# Three historical approaches

## **Historical**

- Mercantilist
- Liberal
- Marxist

## **Contemporary**

- Realist – based on the power of nation states
- Rules-based international economic system – mutual interdependence
- Radical critiques of the international economy

**TABLE 1.1**

**Three Traditional Schools of International Political Economy**

|                                            | Mercantilism                                                                                                                 | Liberalism                                                                                                                                                                       | Marxism                                                                                                                             |
|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| Most Important Actor                       | The State                                                                                                                    | Individuals                                                                                                                                                                      | Classes, particularly the capitalist class                                                                                          |
| Role of the State                          | Intervene in the economy to allocate resources                                                                               | Establish and enforce property rights to facilitate market-based exchange                                                                                                        | Instrument of the capitalist class uses state power to sustain capitalist system                                                    |
| Image of the International Economic System | <i>Conflictual:</i> Countries compete for desirable industries and engage in trade conflicts as a result of this competition | <i>Harmonious:</i> The international economy offers benefits to all countries. The challenge is to create a political framework that enables countries to realize these benefits | <i>Exploitative:</i> Capitalists exploit labor within countries; rich countries exploit poor countries in the international economy |
| Proper Objective of Economic Policy        | Enhance power of the nation-state in international state system                                                              | Enhance aggregate social welfare                                                                                                                                                 | Promote an equitable distribution of wealth and income                                                                              |

# Interests and institutions (Oakley)

- Where do the interests, or economic policy preferences, of groups in society come from?
- How do political institutions aggregate, reconcile and ultimately transform competing interests into foreign economic policies and a particular international economic system?

## Traditional separation between economics and politics

- Traditionally economists assume away state interests
- Neoclassical economics:
  - timeless analytical framework
  - underlying power relationships taken as granted
  - no analysis of rules or norms
  - outcomes of policy not inputs
- Heckscher-Ohlin-Samuelson (factor production theory) is essentially stateless: what matters is not where production occurs, but that it is efficient.
- Mainstream economics is generally also static...
- And it has not concept of power: agents essentially enter the market as equals, countries trade as equals.



# Politics – nation based

- Political scientists failed to look beyond nation state
- Politics – thinks of geography and populations (relative stable)
- Markets – exchange: borders dynamic
- Political analysis sees int'l trade as fundamentally different to domestic economic activity
  - Exports / imports raise security issues
  - Trade (openness) is a foreign policy tool
  - But states do care.

# International law and institutions – but no Leviathan



*“...in the first place, I put for a generall inclination of all mankind, a perpetuall and restlesse desire for Power after power, that ceaseth onely in Death”*

Hobbes, Leviathan,  
Chap XI

A potential permanent  
“state of war”?

# Post-World War II World

- Design (*Pax Americana*) based on free trade views and interwar experience of protectionism
  - GATT – WTO (World Bank, IMF) stabilize Europe
  - European integration – strengthen West
  - (Later NAFTA – consolidate democracy in Mexico)
- Aim to “depoliticize” international economic relations, after 1930s
- But problems with democratic deficit

- Separation between economics and politics broke down in 1970s: oil shocks, end of Bretton Woods -->
  - States had to think of international consequences
  - East-West cold war not only consideration
  - Oil embargo revealed interdependencies
  - Oil embargo raised issues for MNCs
  - Oil shock led to major int'l financial movements
- End of US hegemony?

# International finance

- Bretton Woods – US hegemony
  - But, US finally had to choose between domestic needs and int'l responsibilities
- A lesson: economic arrangements create political obligations and are subject to political manipulation.
- IPE of the euro: principle goal was to bind Germany – 2<sup>nd</sup> create zone or currency stability
  - But Eurozone not an optimal currency area

# IPE of international financial crises

- Erosion of state authority
- No global political authority
- It is hard to agree on a new monetary system
  - Complexity
  - States must sacrifice domestic needs
  - Loss of domestic autonomy

# Hegemony

- Kindleberger: the hegemon is a rich and powerful state, supply public goods to int'l system:
  - Money, security (freedom of seas), system of free trade
- World system prospers under hegemony:
  - The Netherlands (1620-72)
  - Britain (1815-73)
  - US (1945-71)
- Paul Kennedy (1987): always imperial over-reach

# “North-South” Relations

- The Cold War --> “checkbook and chessboard”
- A critique of development:
- Immanuel Wallerstein: modern world system theory – international division of labour
- Dependency theory: the south dependent on the north
- André Gunder Frank: underdevelopment



# Multinational Corporations

- MNCs – an instrument of western Cold War strategy: the invisible handshake
- End of Cold War – economic activity less identified with borders
  - Global Commodity Chains (supply chains)
  - MNCs analyzed in terms of their own power: Susan Strange MNC-state and MNC-MNC relations
- Globalisation – increased power of MNCs > tax avoidance, tax competition, deregulation

# The Globalization *problématique*

- Little to do with state-centered concerns of IR
- Globalization begins with global expansion of production and finance
  - Global market structures: concern politics, business, culture, technology, the environment, global migration, gender relations, tourism, etc.
- At heart is the question of the state – which is weakened: the “missing middle”.

# Benjamin Cohen: *International Political Economy: An Intellectual History* (2008)

- The American and British schools
  - Creeping economism (US) *The Really Big Question*, of systemic transformation?
- The place of the state, as key actor
- US – the causes and consequences of public policy
- UK – a broader range of social issues, less great theory, more governance in an interdependent world

# Susan Strange (1923-1998)

- Structures and relationships more important than physical endowments
  - Relational power: the power of A to get B to do something.
  - Structural power: the power to shape and determine the structures of the global political economy
- Four key structures: security, production, finance and knowledge

# Robert Cox (1926-2008 ): a radical perspective

- Globalisation: a nebula system, including:
- A transnational ruling class (in private and public sectors), exercising global hegemony;
  - Controlling production,
  - Imposing neoliberalism
  - New constitutionalism – to prevent democratic control

# Further information on the traditional 3 perspectives of IPE

| Theories                                     | Domination by states                                                                         | The diffusion of power                                                                    | Social classes                                                           |
|----------------------------------------------|----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| Main authors                                 | Robert Gilpin<br>Robert Keohane<br>Joseph Nye<br>Journal: <i>International organisations</i> | Susan Strange<br>Ronen Palan<br>Journal: <i>Review of International Political Economy</i> | Robert Cox<br>Stephen Gill<br>Journal: <i>Political Economy</i>          |
| Main actors                                  | States<br>International organisations                                                        | Authorities<br>Markets<br>States<br>Firms                                                 | Social classes<br>States<br>Firms                                        |
| Approach to power                            | Material resources<br>Hierarchy, based on domination<br>Mutual interest in cooperation       | Structural power<br>Analysis of the results of exercising power                           | Hegemony (power, ideas and institutions)<br>Transnational dominant class |
| Instruments for regulating the world economy | Hegemonic stability<br>Regimes                                                               | Complex governance<br>Zones of non-governance                                             | Accepted hegemony<br>Rise of an international civil society              |
| Political outlook                            | Accepts established order                                                                    | Critical of established order                                                             | Critical of established order                                            |

Source: Christian Chavagneux, *Economie politique internationale*, Paris, Repères, La découverte, 2004.