

Course 9

The Changing International Political
Economy

Outline

- Why IPE and some definitions
- The search for order and *Pax americana* and after
- Strands in IPE

Why IPE and some definitions

Traditional separation between economics and politics

- at least in the Western world

- Neoclassical economist traditionally ignores the state
- It assumes:
 - timeless analytical framework – often static
 - underlying power relationships taken as granted (agents are essentially equal)
 - 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.

Politics – nation based

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

The Separation Breaks Down

Separation between economics and politics broke down in 1970s (**for the US**): rising trade, 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 gold standard => a reorganisation of US hegemony?

What Is IPE?

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

What is IPE?

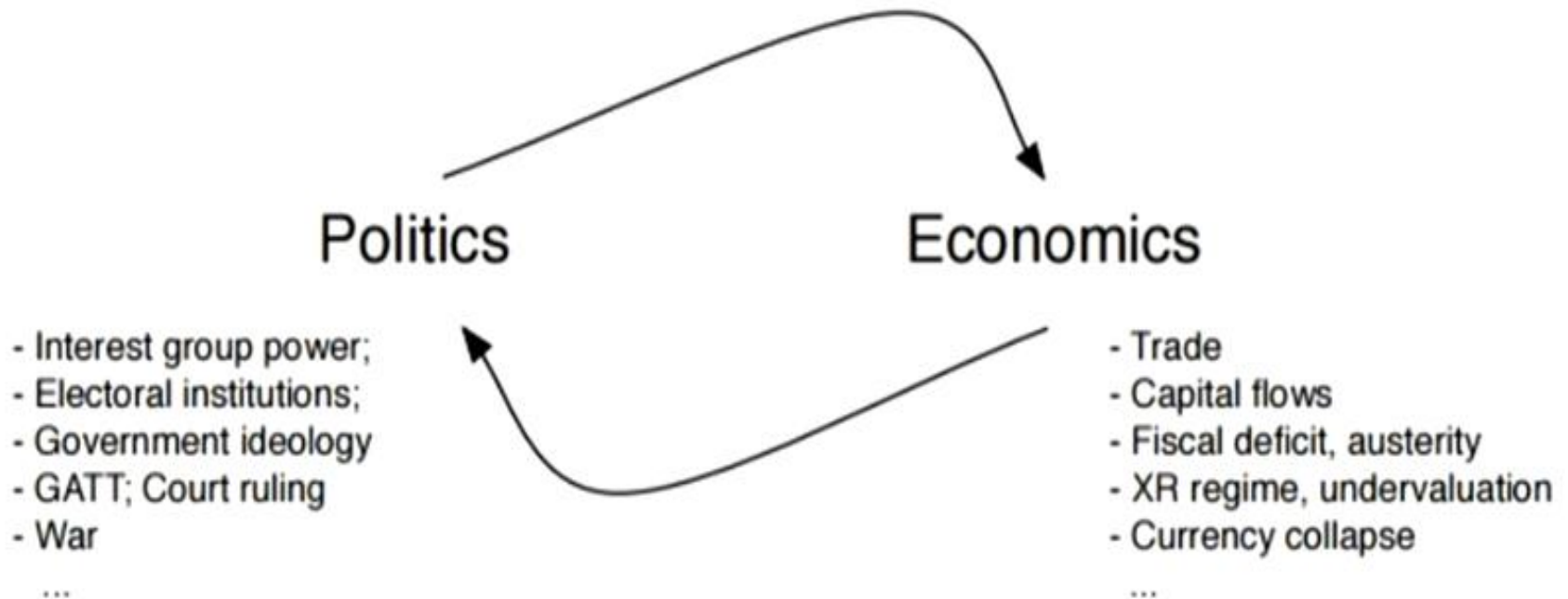
Thomas Oatley:

“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 they be trade transactions, exports, imports, protectionism, tariffs, non-tariff 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 how labour and migration do.”

The interconnections of politics and economics by Christakis Georgiou



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

The Power of Interests and Institutions (Oakley)

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

Historical phases of realism and liberalism

Realism

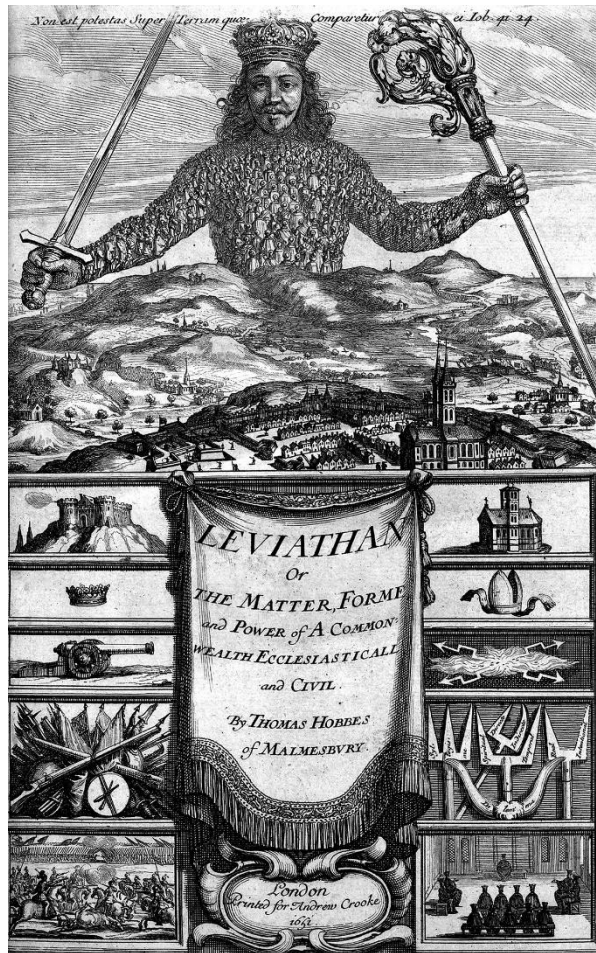
- **The Early Modern Period** (15th to 18th centuries): nation states, colonialism, mercantilism, bullionism
- **1930s:** beggar-thy-neighbour protectionism
- **The Cold War Era** (1947-91): trading blocs and self-sufficiency, strategic industries

Liberalism

- **Late 19th century -> 1914** the first age of globalisation, free trade & investment and the gold standard
- **Post-World War II** in “the West”
- **After the Berlin Wall** (1989-1991), during *The End of History* era.

The search for order and
Pax americana after 1945

International law and institutions – but no Leviathan



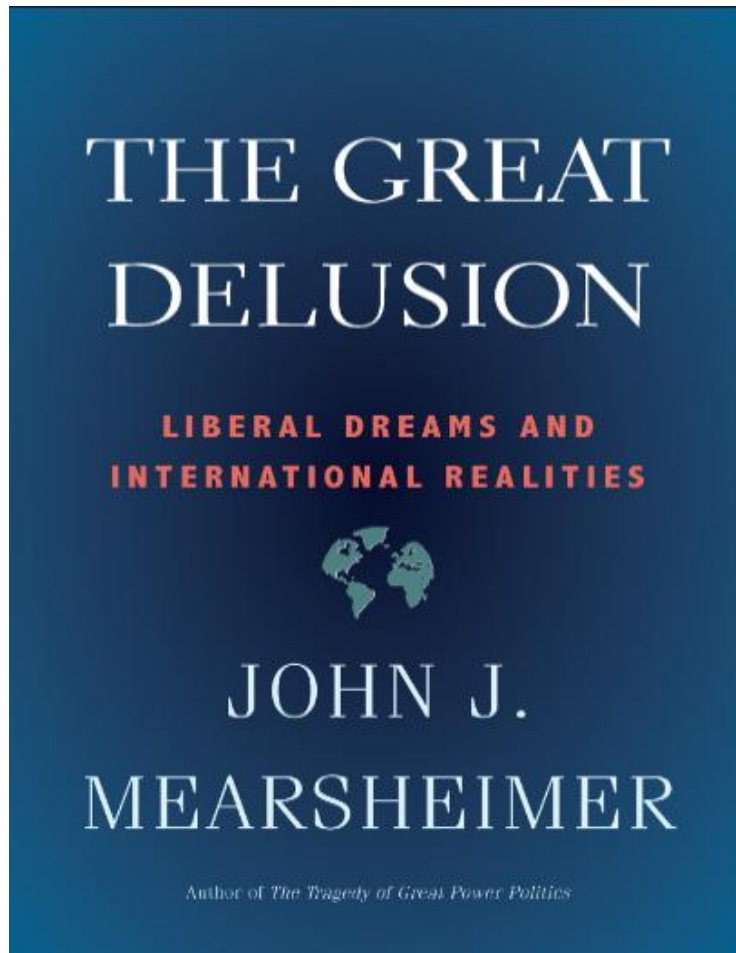
“...in the first place, I put for a generall inclination of all mankind, a perpetuall and restlesse desire for Power after power, that ceaseth onely in Death”

Hobbes, Leviathan,

Chap XI

**A potential permanent
“state of war”?**

The Great Delusion: Liberal Dreams and International Realities



There is no general agreement on the “Good Life”

The international system is essentially anarchic

States exist for communities to protect themselves... and can never really trust each other

Western liberalism is an “impossible dream” – sometimes with tragic consequences

Post-World War II World

- Design (*Pax Americana*) > 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

Hegemony – a key concept in IPE



Image created by
GPT-4/DALL.E
(4 April 2024)

The hegemon as “an
all-powerful,
abusive power”.

Hegemony – a key concept in IPE

- 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) followed by US dollar standard > 2007
- Paul Kennedy (1987): imperial over-reach
- In the 2020s, 2 hegemonies – the US and China?

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: principal goal was to bind Germany – 2nd 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
- Since war in Ukraine > **a fragmented international monetary system?**
- **March 2026, Iran allowing oil paid in yuan to pass through the Strait of Hormuz**

“North-South” Relations

- The Cold War --> “checkbook and chessboard”
- A critique of development:
- Immanuel Wallerstein: modern world system theory – international division of labor (base along racial lines)
- 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 analysed in terms of their own power: Susan Strange MNC-state and MNC-MNC relations
- Globalisation – increased power of MNCs > tax avoidance, tax competition, deregulation

Strands in IPE
(the US and British traditions, etc.)

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): sceptical about a grand theory

- 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

Susan Strange – Mafias

(The Retreat of the State, Cambridge, 1996)

- The “magic of the market” > internationalisation of drug production, distribution and consumption
- State-mafia symbiosis > suppression > monopoly rents > higher profits
- Money laundering > financial intermediation
- Illegal immigration
- (From 2010s onwards > cryptos, tax havens)

The endless “wars on drugs”

Mexico



Source: Wikipedia “Mexican Drug War”, Map of Mexican cartels drug routes, based on 2012 Stratfor report

United States

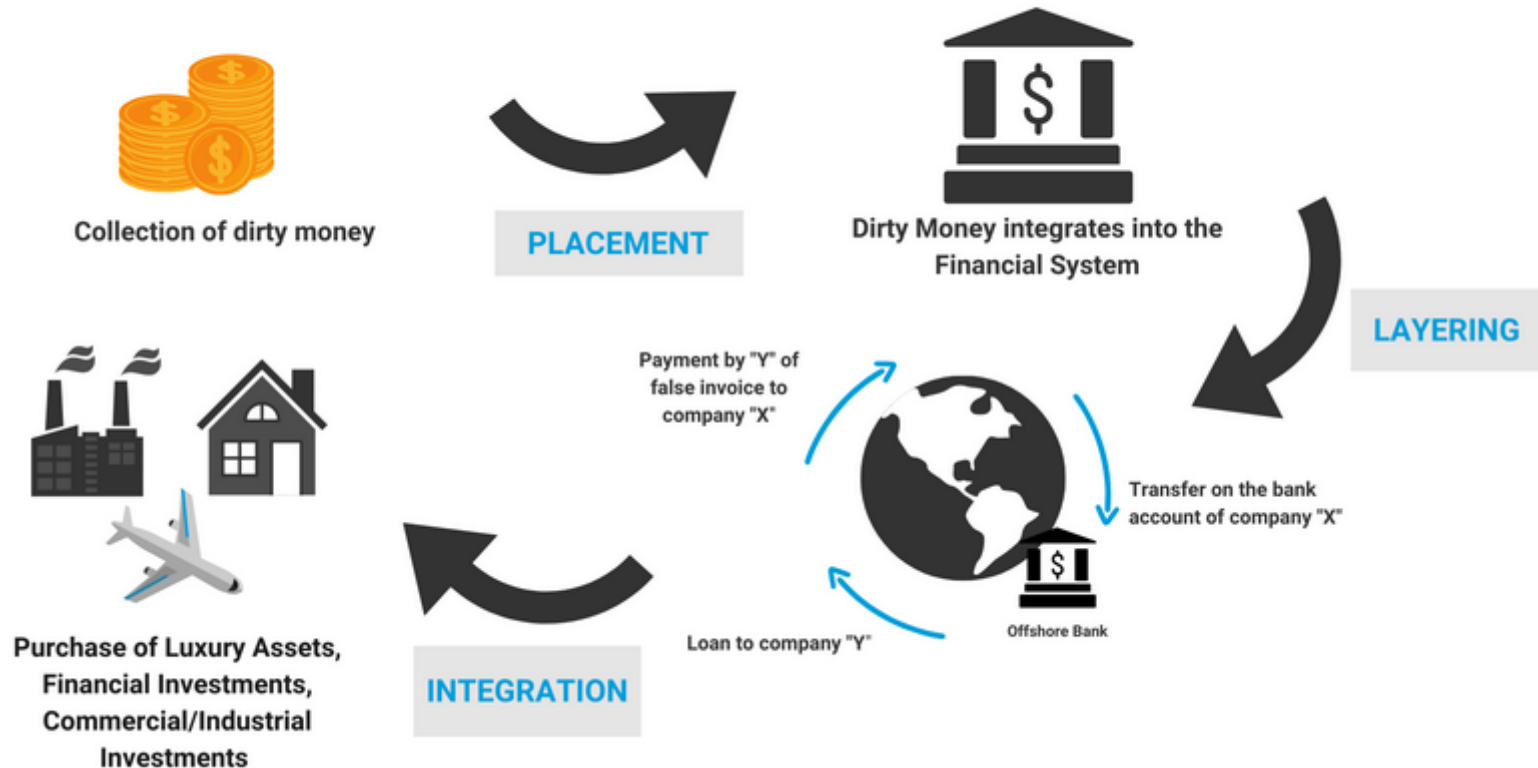
“half a million weapons”



Source: Liz Mineo, “[Stopping toxic flow of Guns from U.S. to Mexico](#)”, The Harvard Gazette, February 18, 2022.

United Nations, Office of Drugs and Crime (aided by tax havens and big accounting companies)

Money Laundering Cycle



Source: UN, <https://www.unodc.org/unodc/en/money-laundering/overview.html>

Finance & Mafia

A supplier of services

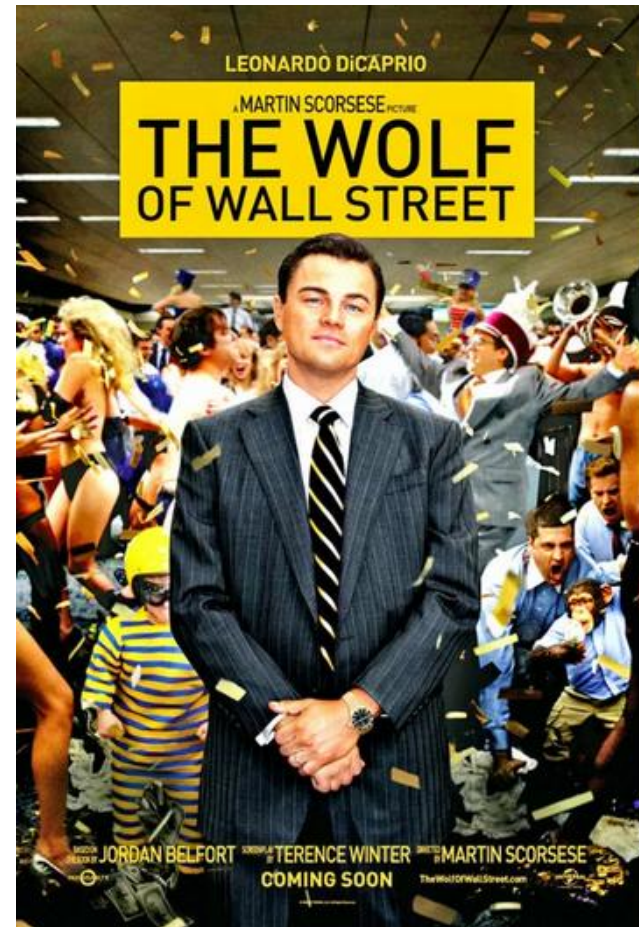
Money laundering

Tax havens

“Sunny places for shady people”

Also, the culture of finance as gambling

As a consumer of mafia services:
drugs, prostitution and gambling



“Disaster Capitalism” – Privatised Wars (Naomi Klein) **and blurred boundaries between legality and illegality non-state actors carrying out “sovereign functions”**

Blackwater in Iraq



“Wagner” in Ukraine, Africa



Russian mercenaries from the Wagner Group, Bangui, Central African Republic, 2019
Declan Walsh, “[Putin’s Shadow Soldiers: How the Wagner Group is Expanding in Africa](#)”, NYT, 31 May 2022.

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 Robert Keohane Joseph Nye Journal: <i>International organisations</i>	Susan Strange Ronen Palan Journal: <i>Review of International Political Economy</i>	Robert Cox Stephen Gill Journal: <i>Political Economy</i>
Main actors	States International organisations	Authorities Markets States Firms	Social classes States Firms
Approach to power	Material resources Hierarchy, based on domination Mutual interest in cooperation	Structural power Analysis of the results of exercising power	Hegemony (power, ideas and institutions) Transnational dominant class
Instruments for regulating the world economy	Hegemonic stability Regimes	Complex governance Zones of non-governance	Accepted hegemony 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.

Takeouts

- IPE supplements the standard theory, which remains strong in microeconomics and methodology
- Nation states not out yet – see Covid responses
- But succession of crises (GFC, Covid, Ukraine) in a global economy challenge the standard theory in macroeconomics, and international economics
- Prices and comparative advantage remain important for international trade (Justin Yifu Lin)
- But power relationships are fundamental between states, and international rules are fragile
- The re-election of Donald Trump is changing everything