Chapter 3: International Political Economy (IPE)

Chapter Outline

Objectives:

3.1. Meaning and Nature of International Political Economy (IPE)

3.2. Theoretical perspectives of International Political Economy

3.3. Survey of the Most Influential National Political Economy systems in the world

3.3.1. The American System of Market-Oriented Capitalism

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3.3.3. The German System of Social Market Capitalism

3.3.4. Differences among National Political Economy Systems

3.4. Core Issues, Governing institutions and Governance of International Political Economy

3.4.1. International Trade and the WTO

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3.4.3. International Finance and the IMF

3.5. Exchange Rates and the Exchange-Rate System

Chapter Objectives

Up on completing this unit, students will be able to:

- Explain the **meaning and nature** of International Political economy
- Identify and analytically distinguish the most influential **theoretical perspectives** of International Political economy
- Figure out 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

Brainstorming Exercise

What comes to your mind when you think of such concepts as 'International politics', 'International economics' and 'International political economy? How important do you think are these concepts in a given society/state?

3.1. Meaning and Nature of International Political Economy (IPE)

- International Political Economy *"is the study of the tension between the market (where individuals engage in self-interested activities) and the state (where those same individuals undertake collective action)".*

- *Only two actors*
- *Existence of* a clear-cut distinction *b/n the two*
- *Tensioned relationship between the two*

**missing points in the definition*

-a political society

-TNCs/MNCs

**The use of the term ''International '' in defining IPE is also problematic (r/ns b/n & among states/nations)-changing the name* from IPE to GPE (Global Political Economy).

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- International Political economy (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.

- Defined this way, the field thus 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 (state and Non-state)
- The economic dimension deals with how scarce resources are distributed among actors

3.2. Theoretical perspectives of International Political Economy

Three ideological perspectives regarding the nature and functioning of the International Political economy: liberalism, Marxism, and nationalism (mercantilism). Are called foundational theories

Mercantilism	Marxism	Liberalism
- Friedrich List(1789–1846) the intellectual father - is a thought in response to classical economics - defends a strong and pervasive role of the state in the economy, play a disciplinary role in the economy for competition - In International trade, it emphasizes importance of balance-of-payment surpluses in trade and autarky (self-sufficiency) - neo-mercantilism defended interventionist state in selected economic roles ('developmental state approach') - Japanese, South Korean, Chinese and Taiwanese	- Karl Marx founder, emerged as a critique of classical economics - relevance declined ff the decline of communism and the "import-substitution" strategies - But its critique continues as long as the gap b/n poor and rich continued i.e. 20% of richest controls 83% while 20% poorest 1% of world's income - For Marxist's, this is due to the flaw of capitalism	- Adam Smith's (1723–1790) classical liberalism founder - experienced a relatively considerable growth in influence - idea of free market system - Removing impediments (barriers) to the free flow - Advocate of **comparative advantage** shifting to **competitive advantage** due to globalization

Contemporary variants of foundational theories of International political economy

Hegemonic Stability Theory (HST)	Structuralism	Developmental State Approach
- Hybrid of the above three but closest association with mercantilism - the root cause of the economic troubles is the absence of a benevolent hegemon—that is, a dominant state willing and able to take global responsibility - HST has thus influenced the establishment of the Bretton Woods institutions (IMF and WB) – USA led	- variant of the Marxist perspective - There are structural problems of the international liberal capitalist economic system - centre-periphery (dependency) relationship between the Global North and the Global South - permanently resulted in an "unequal (trade and investment) exchange - also known as the 'Prebisch-Singer thesis' (named after its Latin American proponents Presbish and Singer) - advocates for a new pattern of development based on industrialization via import substitution based on protectionist policies	- variant of mercantilism and it advocates for the robust role of the state in the process of structural transformation - developmental state thus refers to a state that intervenes and guides the direction and pace of economic development *Strong interventionism *Existence of bureaucratic apparatus *Existence of active participation and response of the private sector to state intervention *the population is actively engaged in the process of formulating and executing common national project of development

3.3. Survey of the Most Influential National Political Economy systems in the world

The American	The Japanese	The German
- influence of the neoclassical model - Market-Oriented Capitalism - is based upon the abstract theory of economic science - Emphasis on consumerism and wealth creation - purpose: to benefit consumers - Maximizing private interest - MNCs work for profit - If market is not competitive, competition should be promoted through antitrust and other policies	- System of Developmental State Capitalism, (collective capitalism, welfare corporatism, competitive communism, network capitalism and strategic capitalism) - best characterized as neo-mercantilism - making vanquished Japan into the economic and technological equal, and perhaps even the superior, of the West - the economy is subordinate to the social and political objectives of society - building a strong army and becoming an industrial power (Pre-WWII mission) - Later changed to focus on becoming a powerful industrial and technological nation	- System of Social Market Capitalism (the "corporatist" or "welfare state capitalism") i.e. - capital, organized labor, and government cooperate in management of the economy - some characteristics similar to the American and some to the Japanese systems of political economy, but it is quite different from both in other ways - emphasizes exports and national savings and investment more than consumption (like Japan) but freed markets

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The American	The Japanese	The German
- After the New Deal of 1930, Full Act of Employment and acceptance of Keynesian Principles, dilution of laissez-faire ideal happen - But the retreat started after 1980 - There has been no persistent sense of business responsibility to society or to individual citizens - Authority over the economy is divided among the executive, legislative, and judicial branches of the federal government and between the federal government and the fifty states - employed promoting sector specific policies in just a few areas, notably in agriculture and national defense	- This is due to Japan's experience as a late developer and also from its strong sense of economic and political vulnerability and due to - the Japanese people's overwhelming belief in their uniqueness, in the superiority of their culture, and in their manifest destiny to become a great power. - economic efficiency subordinate to social equity and domestic harmony - over-regulation of the Japanese economy is motivated in part by a desire to protect the weak and defenseless	- attempts to balance social concerns and market efficiency - The German state and the private sector provide a highly developed system of social welfare - major banks are vital to the provision of capital to industry - Labor, not employee council, has a particularly important role in corporate governance - The German economic system has created a stable and favorable environment for private enterprise - At the core of the German system of political economy is their central bank

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The American	The Japanese	The German
- However, the American economists, public officials, and business leaders have been strongly opposed to industrial policy (political role of state in the economy)	- The government bureaucracy and the private sector consistently worked together for the collective good of Japanese society - the Japanese provided government support for favored industries, especially for high-tech industries; support to cartels, - the "infant industry" protection system deserves special attention *taxation, finance and other policies *discouraged consumption *import restrictions etc	- The Germans, have not had an activist industrial policy - the government has spent heavily on research and development - The German government has not also intervened significantly in the economy - But offered subsidies and protection to such dying industries as coal and shipbuilding and the state-owned businesses such as Lufthansa and the Bundespost (mail and telecommunications), but after 1990, privatized - Then, it latter resembles American than Japanese

3.3.4. Differences among National Political Economy Systems

- national systems of political economy differ from one another in many important respects such as:

(1) the primary purposes of the economic activity of the nation,

- This determines the role of state in the economy

(2) the role of the state in the economy,

- the welfare of the consumer and the autonomy of the market or
- more communal or collective purposes prevail

(3) the structure of the corporate sector and private business practices

- differing systems of corporate governance, and varying ways they organize their economic activities (production, marketing, etc.)

3.4.1. International Trade and the World Trade Organization (WTO)

What is International Trade?

- Is exchanges crossing borders of states

Why it happens? B/c of impossibility of Autarky (self-sufficiency) by all

How it can be governed? Through global/regional organizations such as WTO, NAFTA, COMESA, ASEAN,….

- Members of these institutions enter in to agreement or commitment to remove or relax trade barriers like Tariff, Quota, Import ban, regulations, technical standards, etc
- WTO(1995, 150 states, GATT /1945) is an international organization which sets the rules for global trade

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3.4.2. International Investment and the World Bank (WB)

World Bank (WB) (1945)- reconstruct Post war Europe; latter focus on developing countries. It aids/loans work for human development, environmental protection, infrastructure and governance. Its role is debatable due to “1 size fits all’’

International Investment

Foreign Direct Investment (FDI) (Transnational Production) is a type of production in which different parts of the overall production process for a particular product take place across different national territories. Look this example:

Why this network high today?

- Decrease in communication and transportation costs
- Developments of new and better technologies and improvements in global finance

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3.4.3. International Finance and the Int'l Monetary Fund (IMF)

IMF (180 members; but vote varies(G-8 (US, Japan, Germany, France, the UK, Italy, Canada and Russia)**+2 (Saudi Arabia and China) have over 55%)**

- **oversees** those financial institutions and regulations that act at the international level.
- The global financial system is divided into two separate, but tightly inter-related systems:

(a) monetary system (relationship between and among national currencies i.e. exchange rate) and

(b) credit system (framework of rules, agreements, institutions, and practices that facilitate the transnational flow of financial capital)

3.5. Exchange Rates and the Exchange-Rate System

- An *exchange rate* is the price of one national currency in terms of another.
- exchange rate systems: *fixed Vs* floating *exchange rate*
- floating-rate system, the value of a currency is determined solely by money supply and money demand
- fixed-rate system, on the other hand, is one in which the value of a particular currency is fixed against the value of another single currency or against a basket of currencies.

How is the global financial system governed?

- The IMF, supposed to neutrally govern IFS but primarily represents US and, 2ndly the interests of the other major capitalist countries
- the more a country pays, the more say it has in IMF decision makings

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