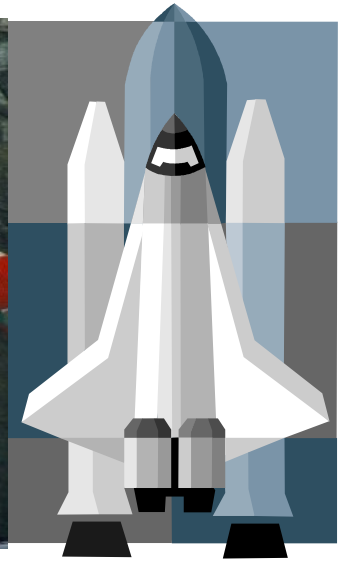


CHAPTER THREE

INTERNATIONAL POLITICAL ECONOMY (IPE)

3.1. MEANING AND NATURE OF INTERNATIONAL POLITICAL ECONOMY (IPE)

- **Political Economy teaches how a nation become rich"** : **'The Wealth of Nations'.**
- **Central points in IPE are:**
  - Debates on international level over the responsibilities of the state in economy.
  - The relation between state and market in economy.
  - How the international trade, investment, foreign loan and debt and foreign aid should be governed.
  - The role of international institutions in the governance of international finance, investment and trade.
- **What kind of political order is needed?**
  - **Minimalist view (neoclassical economists)**: the state only provides the legal-institutional framework.

IS MARKET OR STATE LEADING AGENT ?

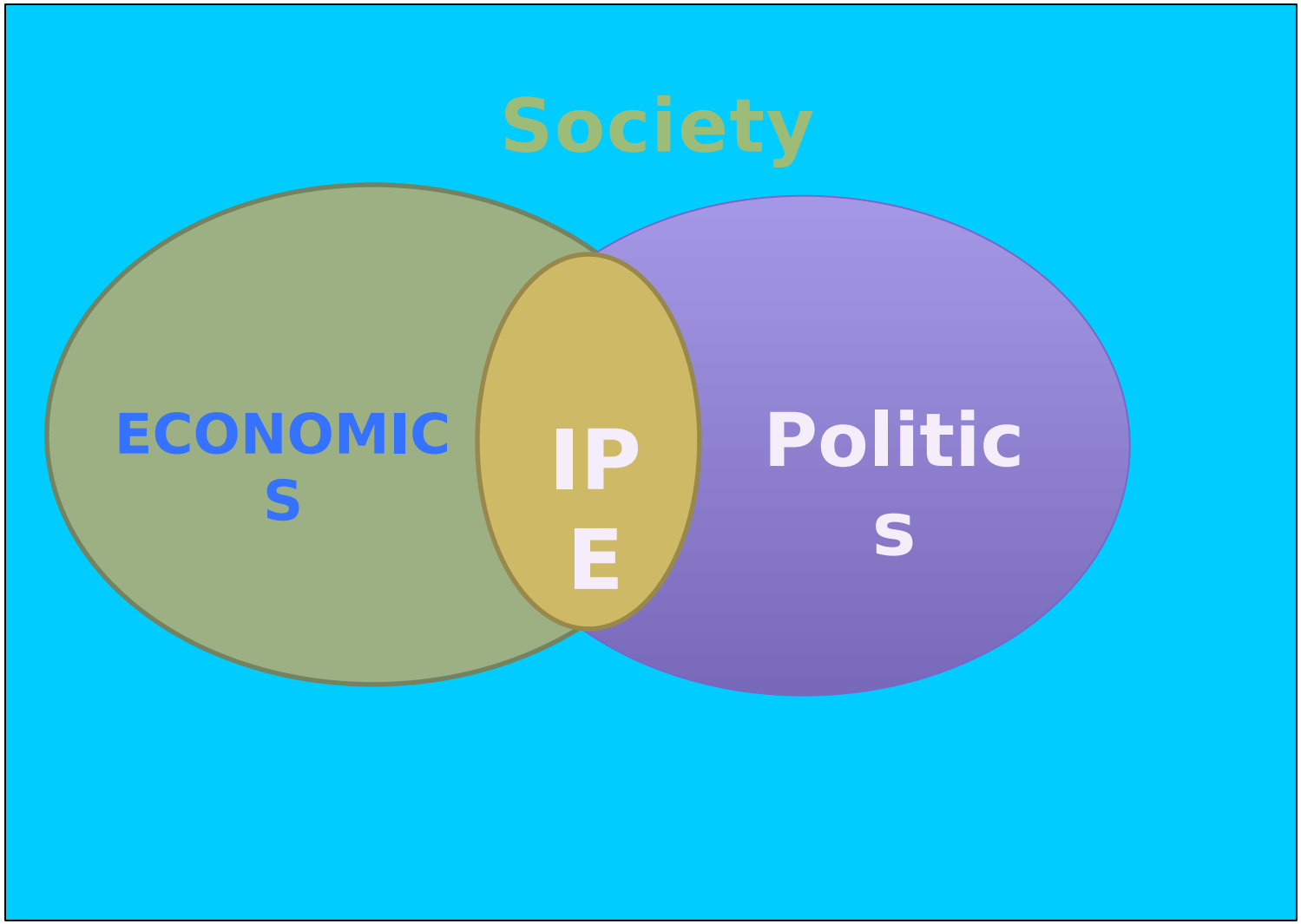
Figure 1.3. In the traditional view, the relationship between the state and the market is seen as adversarial, like two boxers fighting. However, this is not the only way—nor is it necessarily the best way—to conceptualize the relationship between the state and the market.

CONT'D

- IPE studies;
  - the ever-changing relationships between **governments, businesses, and social forces** across history and in different geographical areas.
  - the political battle between the winners and losers of the global economy exchange.
- The **two central dimensions** are:
- ***A political dimension;*** use of power and making of rules by a variety of actors (set of institutions/rules governing social and economic interactions).
- ***The economic dimension;*** how scarce resources are distributed among individuals, groups, and nation-states(system of producing, distributing and using wealth).
- Aspects of the **global economic exchange** include:

competition	conflict
Cooperation	Exploitation

THE GEOMETRY OF GLOBAL POLITICAL ECONOMY



3.2. THEORETICAL PERSPECTIVES OF IPE

- Regarding the nature and functioning of the IPE, there are **three major theoretical/ideological perspectives**. These are:

1. **Mercantilism/Economic Nationalism**

- The oldest of the three, dating back as early as the 16th century.
- Is a response to **classical economics.**
- Defends a strong and pervasive role of the **state in the economy.**
- promotes an extreme policy of **autarky** to promote national economic **self-sufficiency.**
- Emphasizes the importance of **balance-of-payment surpluses** in trade with other countries.
- It based on three ideas:
  A. Not market rather state should compete economically
  B. Free trade only benefits the wealthiest or rich nation
  C. Protecting infant industries from competition with rich countries
- The main theorists are Alexander Hamilton and Friedrich List.

2. LIBERALISM

- The root of liberalism is related to Adam Smith's **"the wealth of Nations"-**1776'
- Defends the idea of **free market** system.
- It is based on the following ideas:
  - the key to **national wealth** is **economic growth** : the key to **economic growth** is **free trade.**
  - Free market operation without any barrier.
  - Minimal state role in economy.
- **free trade** would encourage countries to specialize in producing certain goods- **(comparative advantage)**.
- **Comparative advantage** has been undermined by the current wave of economic globalization.
- This mark a shift from the **comparative advantage** to **competitive advantage.**
- As a result, governments continue to engage in **protectionism**, despite global acceptance of free trade.

3. MARXISM

- Is the youngest of the three and is advanced by **Karl Marx**
- Emerged as a critique of **classical economics.**
- According to advocates of Marxism:
  - **Global and national income inequality remains extreme**.
  - Inherent **instability and volatility of a global capitalist system.**
- Some of the **central arguments** are:
  - historical changes are the reflection of economic development
  - Capitalism is the main driving force of the global economic relations
  - Class conflict is pervasive and the world system is exploitative
  - The world should be analyzed in totality

SUMMARY

The three Traditional Schools of International Political Economy[40]

	Mercantilism — Realism[41]	Liberalism	Marxism/ Structuralism
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	*Conflictual*: Countries compete for desirable industries and engage in trade conflicts as a result of this competition	*Harmonious:* The international economy offers benefits to all countries. The challenge is to create a political framework that enables countries to realize these benefits	*Exploitative:* Capitalists exploit labour 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

CONTEMPORARY THEORIES OF IPE

1. Hegemonic Stability Theory (HST):

- Containing elements of mercantilism, liberalism, and even Marxism.
- **Charles Kindleberger** (1973) argues that the root cause of the **economic troubles (Great Depression)** in the 1920s and 1930s-absence of a **benevolent hegemon.**
- **Benevolent hegemon is a** dominant state willing and able to take responsibility for the smooth operation of the International (economic) system as a whole.
- The Hegemonic power plays instrumental role in Counter-cyclical lending.
- It solves currency convertibility challenges . By doing so it ease currency exchange between countries.
- HST has thus influenced the establishment of the

2. STRUCTURALISM

- Is a variant of the Marxist perspective.
- Is Latin American model .
- starts analysis from a practical diagnosis of the specific structural problems of the **international liberal capitalist economic system.**
- The main feature of capitalist system is **centre-periphery** (dependency) relationship between the **Global North and the Global South** -resulted in an **"unequal exchange."**
- it advocates for a new pattern of development- **industrialization** via **import substitution** based on **protectionist policies.**
- Since 1950s, this model spread to other countries in **Asia and Africa,** and became a **central objective in many development plans.**

3. DEVELOPMENTAL STATE APPROACH

- Is an alternative development paradigm to the failure of **neo-liberal development paradigm** (in the 1980s) in solving economic problems in **developing countries.**
- Is a variant of mercantilism
- advocates for the **robust role of the state** in the process of **structural transformation**.
- Some of the core features are:
  - Strong interventionism
  - Existence of bureaucratic apparatus
  - active participation and response of the private sector
  - Regime legitimacy built on development results and active public engagement

3.3.4. DIFFERENCES AMONG NATIONAL POLITICAL ECONOMIC SYSTEMS

- **National systems of political economy** differ from one another in:
  - The primary purposes of the economic activity of the nation.
  - The role of the state in the economy
  - The structure of the corporate sector and private business practices.
- In terms of **state role**, **market economies** include:
  - the generally laissez-faire
  - noninterventionist stance of the United States
- On the other hand, there is **state's central role** in the overall economic management stance of the **Japanese**.
- The purpose of **economic activity** in a particular country largely determines the **role of the state** in

CONT'D

- In general, the emphasis of **liberal societies** is on:
  - **welfare of the consumer**
  - the **autonomy of the market** - **minimal state role**.
  - Limited role of state (limited to **correct market failures** and **provide public goods)**.
- In terms of the system of **corporate governance and private business** practices;
  - **In the American business**- shareholders (stockholders) have an important role .
  - In both **Japan and Germany**-banks have played a more important role .
- **In business practices**:
  - The largest American firms- prefer to invest and produce abroad,
  - Japanese firms-prefer to invest and produce at home.

3.4.1. International Trade and the WTO:

- **WTO** sets the rules for **global trade**.
- was set up in 1995 as the successor to the **GATT** after the WW II.
- has about 150 members.
- All decisions are taken **unanimously**
- but the **major economic powers** have managed the rules of WTO to advance their own interests.
- **International Trade**: involves the exchange of money for goods and services across national border.
- **Cross-border trade is** mediated by at least two different national governments with their own set of interests and concerns.
- Generally, global trade is governed by the idea of **Global/Regional Free Trade Agreements**.

WB- was created immediately after the WW II in 1945.

- primarily designed as a vehicle for the disbursement of **Marshall Plan** money set up to aid the reconstruction of Europe.
- Later on, it expanded to influence all **developing countries** in Asia, Africa, and Latin America.
- Today, it *focused on the developing countries* .
- *provides loans and grants to the member-countries.*

- Generally, investment and development process in the developing countries are directly or indirectly governed by the **WB.**
- But, its impact has been at best controversial and at worst negative with the **'one size fits all'** types.

3.4.3. INTERNATIONAL FINANCE AND THE IMF

- **IMF**-*is an international Financial organization that oversees those* ***financial institutions and regulations*** *that act at the global level.*
- *has 184 member countries, but they do not enjoy an equal say.*
- The **global financial system** is divided into:
  - a monetary system and
  - a credit system.
- **The monetary system** is Related with how the exchange rate among different national currencies is determined.
  - Is defined as the relationship between and among **national currencies.**
- **The credit system** -refers to the framework of rules, agreements, institutions, and practices that facilitate the transnational flow of financial capital for the purposes of investment and trade financing.
- Generally**,** the IMF provided governance for the **global financial system.**

CONT'D

3.5. EXCHANGE RATES AND THE EXCHANGE-RATE SYSTEM

- **An exchange rate** is the price of one national currency in terms of another.
- There are **two main exchange rate** systems in the world:
  - **Pure fixed exchange rate:** the value of a particular currency is fixed against the value of another single currency or against a basket of currencies.
  - **Pure floating exchange rate** : the value of a currency is determined solely by **money supply and money demand** in the absence of intervention by governments or other actors.
- While IMF is governing the **global finical system**, voting power is determined by **quota**.
- **A quota** (capital subscription) is the amount of money that a member country pays to the IMF.
- The more a country pays, the more say it has in IMF decision makings

The End!!!