Chapter Three: International Political Economy (IPE)

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Unit Objectives:

- After the completion of this unit , you 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***

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Meaning and Nature of International Political Economy (IPE)

- There is no universal agreement on how IPE should be defined.
- This in turn implies that defining the concept is not as simple or straightforward as one might expect
- Definitions are important because it is the definitions that tell us what to include in our analysis and what to leave out.
- IPE —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**.

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IPE….

- The above stated definition asserts two significant subjects of International Political Economy:
- (a) **markets**, which are composed of self-interested individuals and
- (b) **states**, which are the primary political institutions of the modern international system.
- Yet, the definition misses other important side of the story
- We have also equally or even more powerful (**than states) non-state** actors in global politics

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IPE….

- IPE examines the **interdependence of politics and economics** in the international system.
- Like political economy, it views political and economic reality as **two sides of the same coin.**
- Like international relations, it generally adopts a systemic perspective and **views states as primary actors.**
- The study of IPE springs from an **international economy** that transcends place within which states, bound by territory, interact.

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IPE Questions :

- How does the international economy affect domestic politics and/or domestic economic realities (and vice versa)?
- Who benefits from activity/outcomes in the international economy?
- • Can order be attained in the international economic system?
- • Can collective action be achieved within the international economy?

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Theoretical perspectives of International Political Economy

- There are three major theoretical (often ideological) perspectives regarding the nature and functioning of the International Political economy:
  - Liberalism ,
  - Marxism, and
  - Nationalism (mercantilism).

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Mercantilism/nationalism:

- **Foundation**: Adam Smith's (1723–1790 ;
- Friedrich List(1789–1846) as **the intellectual father of the mercantilist thoug**ht)
- Defends a strong and pervasive ***role of the state in the economy*** – both in domestic and international trade, investment and finance.
- Emphasizes on the importance ***of BoP surpluses*** in trade with other countries and
- To this end it often promotes an extreme policy of autarky to promote national economic self-sufficiency
- Defended even a much more sophisticated and ***interventionist role of the state in the economy***
- State should also play a ***disciplinary role in the economy***

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Mercantilism/nationalism…

- Mercantilist thought in the contemporary international political economy is found in the recent experience of the ***Japanese, South Korean, Taiwanese and Chinese***…
- However, these states the East Asian economies used the term ***developmental state approach‘***

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Liberalism:

- Foundations: David Ricardo
- It defends the **idea of free market system**
  - i.e free **trade/trade liberalization and free financial and Foreign Direct Investment (FDI) flows**).
  - Advocate's of free trade believes that
    - it reduces prices,
    - raises the standard of living for more people,
    - makes a wider variety of products available, and contributes to improvements in the quality of goods and services
- If countries focused on what they do best and freely trade their goods with each other, all of them would benefit.
- The concept that captures this idea is also known as comparative advantage.

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Liberalism ….

- However, the theory of comparative advantage has been undermined by the current wave of economic globalization.
- The growth MNCs complicates global trading.
  - The production of goods and services is strongly influenced by costs, arbitrary specialization, and government and corporate policies.
- These developments thus mark a shift from the conventional theory of comparative advantage to what is known as **competitive advantage.**

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Marxism

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Marxism

- Following the collapse of the Soviet Union in the 1990‘s and the apparent embrace of the free market economy by a significant number of developing countries .
- ***Essential elements can be found in the overall corpus of Marxist writings.***
- Materialist approach to history
- General view of capitalist development
- Normative commitment to socialism

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Contemporary theories IPE

- Contemporary theories of International political economy

1. **Hegemonic Stability Theory (HST):**

- Is a hybrid theory containing elements of mercantilism, liberalism, and even Marxism.
- Its closest association, however, is with mercantilism.
- HST emerged because of economic troubles that bedeviled Europe and much of the world in the Great Depression of the 1920s and 1930s
- During its explanatory power to the Great Depression, HST has thus influenced the establishment of the Bretton Woods institutions (IMF and WB)

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Structuralism:

- variant of the Marxist perspective
- starts analysis from a practical diagnosis of the specific structural problems of the international liberal capitalist economic system
  - Main feature is centre-periphery (dependency) relationship between the **Global North and the Global** South which permanently resulted in an —unequal (trade and investment)

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Developmental State Approach

- Is a variant of mercantilism
- it advocates for the robust role of the state in the process of structural transformation.
- refers to a state that intervenes and guides the direction and pace of economic development.
- **core features of developmental state;**
  - ***Strong interventionism:***
  - ***Existence of 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 that ensured the benefits of development …***

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

- **The American System of Market-Oriented Capitalism**

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The American System …..

- Founded on the premise that:
- Economic activity is to benefit **consumers while maximizing wealth creation**;
- The **distribution of that wealth is of secondary importance**.
- The American economy does approach the neoclassical model of a competitive market economy
  - ***The American neoclassical model rests on the assumption that markets are competitive***
  - ***where they are not competitive, competition should be promoted through antitrust and other policies.***

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The American System …..

- The American economy is appropriately characterized as a system of **managerial capitalism.**
- The Economy was profoundly transformed by the late 19th emergence of huge corporations and the accompanying shift from a proprietary capitalism to one dominated by large, oligopolistic corporations
- Management was separated from ownership,

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The American System …..

- The role of the American government in the economy is determined not only by the influence of the neoclassical model on American economic thinking
- But also by fundamental features of the American political system.
- 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.
- Whereas the Japanese Ministry of Finance has virtual monopoly power over the Japanese financial system
- In the United States this responsibility is shared by the Treasury, the Federal Reserve, and several other powerful and independent federal agencies

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The Japanese System of Developmental Capitalism

- Ever since the Meiji Restoration (1868), Japan‘s overriding goals have been making the economy self-sufficient and catching up with the West.
- In the pre–World War II years this ambition meant building a strong army and becoming an industrial power.
- Since its disastrous defeat in World War II
- however, Japan has abandoned militarism
- and has focused on becoming a powerful industrial and technological nation
- These political goals have resulted in a national economic policy for Japan best characterized as **neo-mercantilism**

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- It involves state assistance, regulation, and protection of specific industrial sectors
- Many terms have been used to characterize the distinctive nature of the Japanese system of political economy:
- **developmental state capitalism, collective capitalism, welfare corporatism, competitive communism, network capitalism and strategic capitalism**

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Important elements of the Japanese economic system

- Emphasis on economic development,
- the key role of large corporations in the organization of the economy and society,
- resistance to FDI
- primacy of the producer over the consumer,
- the close cooperation among government, business, and labor.
- state plays central role in the economy
- Trade protectionism , Export led growth

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“Developmental state capitalism”

- state must play a central role in national economic development and in the competition with the West
- Despite the imperative of competition, the Japanese frequently subordinate pursuit of economic efficiency to social equity and domestic harmony.
- Japanese provided government support for favored industries,
  - “Infant industry” protection system deserves special attention

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The policies Japan has used to promote its infant industries

- Taxation, financial, and other policies that encouraged extraordinarily high savings and investment rates.
- Fiscal and other policies
- Strategic trade policies and import restrictions that protected infant Japanese industries against both imported goods and establishment of subsidiaries of foreign firms.
- Government support for basic industries, such as steel, and for generic technology, like materials research.
- Competition (antitrust) and other policies favorable

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The German System of Social Market Capitalism

- The German economy has 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
- Germany, like Japan, emphasizes exports and national savings and investment more than consumption
- However, Germany permits the market to function with considerable freedom; indeed, most states in Western Europe are significantly less interventionist than Japan

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German system of…

- The German system of political economy attempts to balance social concerns and market efficiency.
- The German state and the private sector provide a highly developed system of social welfare
  - “welfare state capitalism”

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D/s among National Political Economy Systems

- (1) the primary purposes of the economic activity of the nation,
- (2) the role of the state in the economy, and
- (3) the structure of the corporate sector and private business practices.

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Core Issues, Governing institutions and Governance of International Political Economy

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International Trade and the WTO

- **What is International Trade?**
- *International trade* is the inter-country flow of goods and financial resources.
- It is considered to be part of the **production structure** (a set of relationships that determine what is produced, where, by whom, how, for whom and at what price) of political economy.
- When elements of this structure cross international boundaries the result is international trade, which assumes forms of interaction between states and other actors such as international business.

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Int.l trade

- How is international/global trade governed?”
  - One most common answer is the idea that Global/Regional Free Trade Agreements govern it-
  - i.e institutions like World Trade Organization (WTO) and
  - North American Free Trade Agreement (NAFTA) or similar other organizations.
  - How does this work? In the case of NAFTA- a trade agreement among the U.S., Canada, and Mexico- for example, —free trade‖ was initially meant a lesser degree of governmental constraints in cross-border trade but not an elimination of government action.

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World Trade Organization

- Is an international organization which sets the rules for global trade.
- This organization was set up in 1995 as the successor to the GATT .

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What is WTO?

(World Trade Organization)

" WTO is an organization that deals with rules of trade between nations."

* Multilateral trade organization
* Goods, Services, intellectual property.

✓ WTO replaced GATT (General Agreement on Tariffs and Trade) in Uruguay Round

WTO	GATT
Dispute sattlement body.	It is not a dispute settlement body.
An organazation with proper secratriant.	It is just an agreement between the countries.

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History – GATT

- The 1986 Uruguay Rounds of trade negotiations covered new trade topics
  - Trade in services and intellectual property
  - Sensitive subjects, like textiles and agriculture
- GATT was expanded by adding:
  - General Agreement on Trade in Services (GATS)
  - Agreement on Trade Related Aspects of Intellectual Property (TRIPS)
- Complexities of globalization strained the effectiveness of GATT

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History – WTO

- Uruguay Round ended in 1994 with the formation of the World Trade Organization
- Jan. 1, 1995 – WTO was born
  - GATT, GATS and TRIPS still exist as the framework for the WTO's operations

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An Organization for Liberalizing Trade

- Liberalism in economics refers to an ideology that supports the individual rights of property and free contract
  - In the context of the WTO it means the removal of trade barriers
    - Goes with the idea that the hands-off approach to markets is the most efficient in the long-run
- WTO's Stated Aim:
  - Promote Free Trade
  - Stimulate Economic Growth





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A Forum for Trade Negotiations

- A place where member governments go to try to sort out trade problems
  - Members start by talking it out
  - WTO acts as a mediating body

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The WTO as a Set of Rules

- WTO Agreements
  - Signed by most of the world's trading nations
  - The legal framework for international commerce
  - Contracts for governments to maintain certain trading policies
- Purpose is to help exporters and importers, while making sure governments meet social objectives
- The WTO oversees the implementation, administration and operation of the covered agreements

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A System to Settle Disputes

- Conflict of interests exists in trade relations
  - Trade agreements need interpreting
- WTO is meant to be a neutral party to help settle trade disputes

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Stages of Dispute Settlement

- Consultation- talk to each other
- Panel- If consultations fail, the complaining country can ask for a panel to be appointed.
- Appeal-Each side can appeal.



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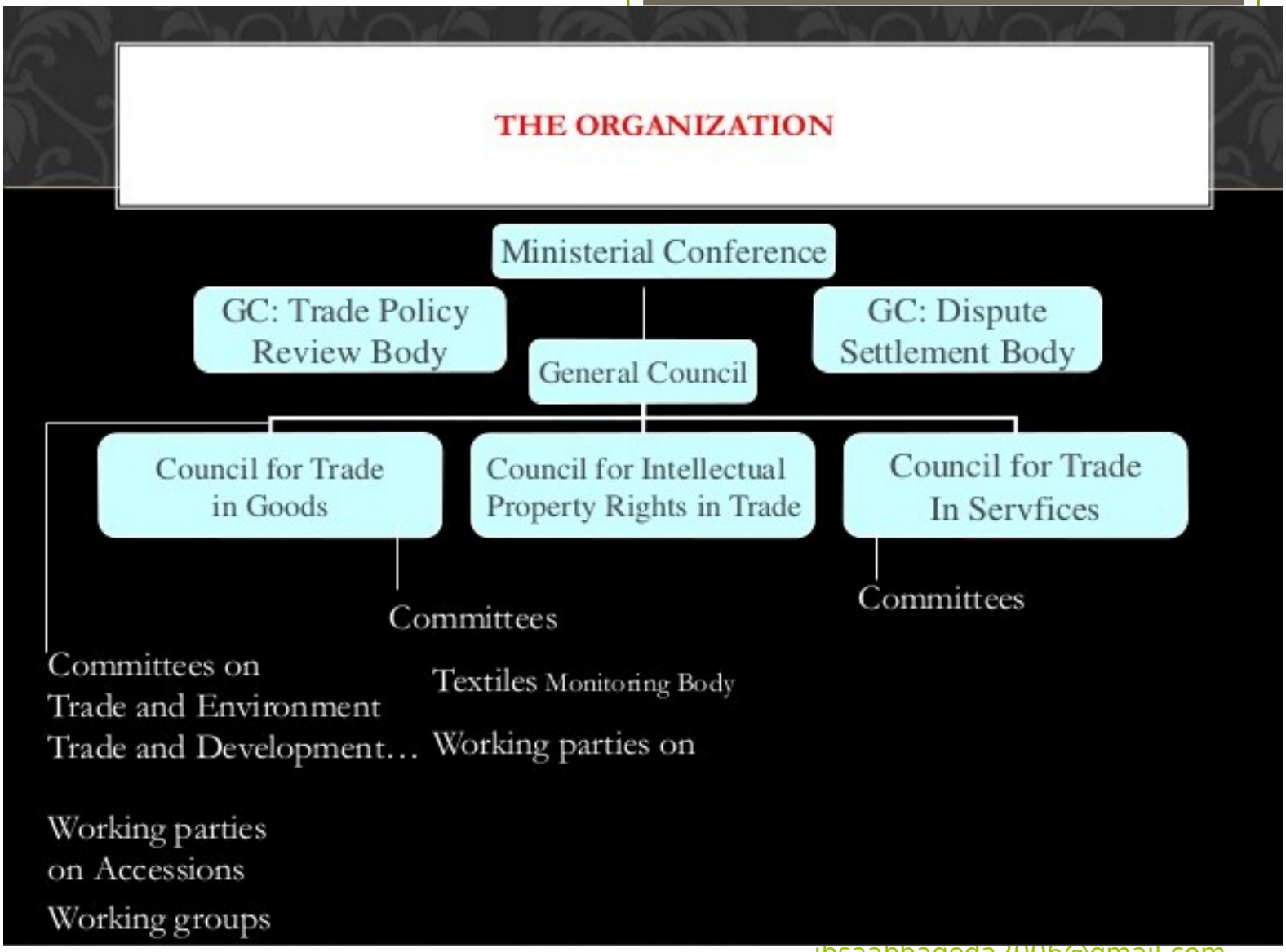
PRINCIPLES OF WTO

The basic principles of the WTO (according to the WTO):

- **Trade Without Discrimination**

1. Most-favoured-nation (MFN): treating other people equally Under the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members.

2. National treatment: Treating foreigners and locals equally Imported and locally-produced goods should be treated equally — at least after the foreign goods have entered the market. The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents.



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Benefits from the WTO

1. The system promotes peace
2. Disputes are handled constructively
3. Rules make life easier for all
4. Freer trade cuts the costs of living
5. It provides more choices of products
6. Trade raises incomes
7. Trade stimulates economic growth
8. The basic principals make life more efficient
9. Governments are shielded from lobbying
10. The system encourages good government

Source: www.wto.org

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International Investment and the WB

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International Finance and the IMF

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Exchange Rates and the Exchange-Rate System

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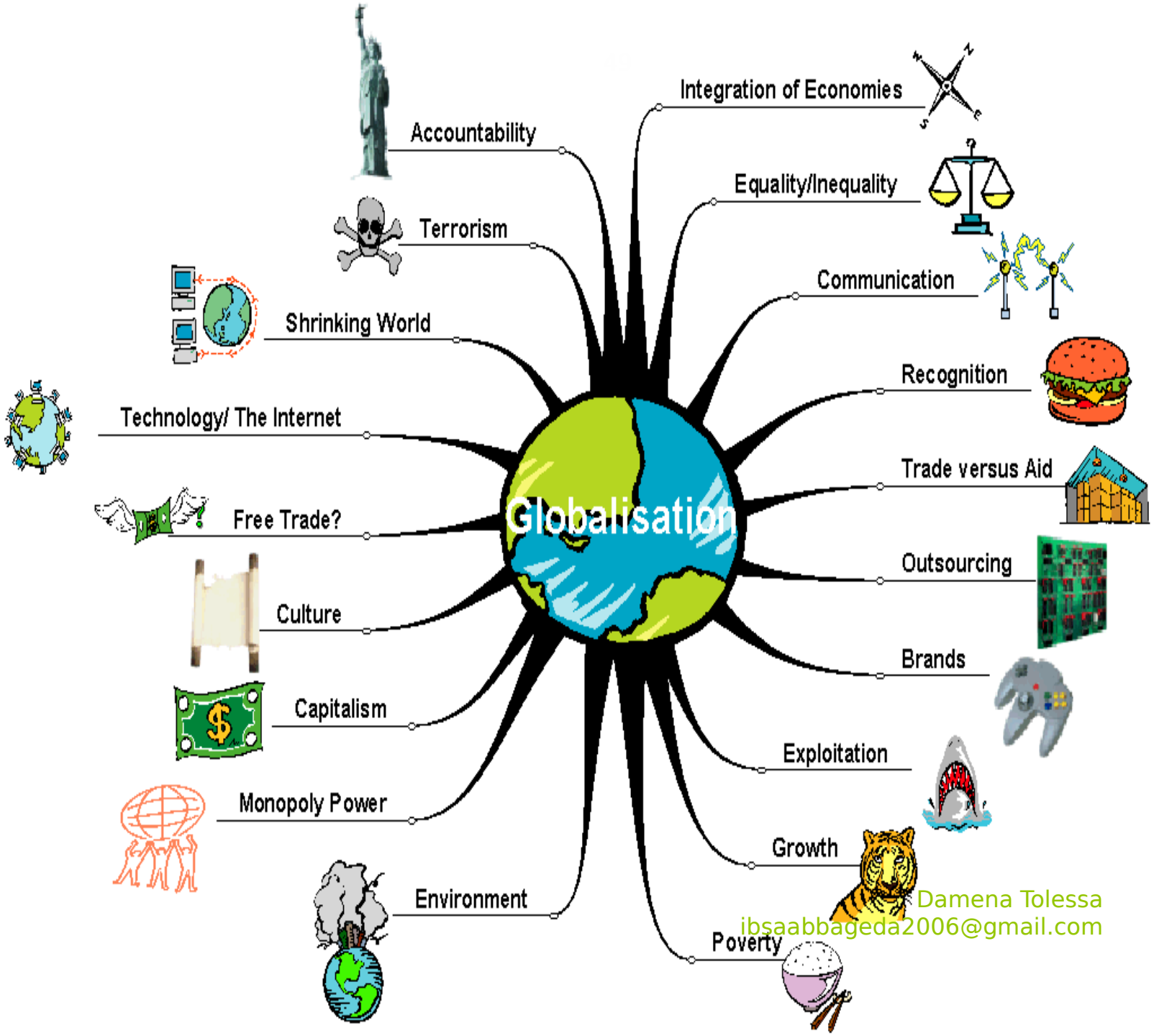
Chapter Four: Globalization and Regionalism

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Objectives

- After successfully completing this chapter students should be able to:
- ⇒ Conceptualize the concepts of globalization and regionalism
- ⇒ Expose themselves with the contemporary debates on the essence and direction of globalization
- ⇒ Develop a position regarding the essence and effects of Globalization
- ⇒ Analyze the impacts of globalization on Africa, Ethiopia and the developing world
- ⇒ Explain the theoretical caveats and practice of regionalism and regional integration
- ⇒ Explain the mutual interaction between regionalism and globalization

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Globalisation
Accountability
Terrorism
Shrinking World
Technology/ The Internet
Free Trade?
Culture
Capitalism
Monopoly Power
Environment
Integration of Economies
Equality/Inequality
Communication
Recognition
Trade versus Aid
Outsourcing
Brands
Exploitation
Growth
Poverty
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Definition of Globalization

- The term globalization derives from the word globalize, which refers to the emergence of an international network of economic systems.
- It is the process of interaction and integration among people, companies, and governments worldwide.
- The worldwide movement toward economic, financial, trade, and communications integration.

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Definition of Globalization

- In general terms **globalization** is an economic, political, technological, and socio-cultural process where the importance of ***state boundaries*** decreases and the countries and their people live in an integrated global system.

- The term has become particularly popular in IPE and in cultural studies.

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GLOBALISATION is a process of interaction and integration among the people ,companies and governments of different nations ,a process driven by international trade and investment and aided by information technology.

This process has effects on the

- environment,
- culture,
- political systems,
- economic development,
- environment,
- prosperity,
- human physical well being in societies.

➢It also refers to movement of people and knowledge across international borders.

➢It is a result of human innovations and technological process.

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Dimensions of Globalization

- Three main dimensions of globalization:
  - **Economic** Dimensions of Globalization
  - **Socio-cultural** Dimensions of Globalization
  - **Political** Dimensions of Globalization

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Economic Dimensions of Globalization

- **Economic** globalization is one of the most frequently used in discussions of development and trade.

- It is a process by which the economies of the world become increasingly integrated leading to global economy.
- It include : global finance and economy, multinationals, networking, international trade and business, new labor markets, new development cooperation

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Political Dimensions of Globalization

- In political science, globalization idea has been significant in thinking about ***ideology*** and in ***political behaviour*** in terms of issue areas such as ***geopolitics*** and ***human rights***.
- In terms of the **environment** and human rights clear evidence of the need for global codes of conduct.
- It include human right, international terrorism, war and new security problems

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Socio-cultural Dimensions of Globalization

- **Social globalization** means processes whereby many social relations become relatively delinked from territorial geography, so that human lives are increasingly played out in the world as a single place.

- **Cultural globalization** refers to an emerging “global culture”, in which people more often consume similar goods and services across countries and use of common language.
  - **Examples:** use of English.

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History of Globalization

- It is hard to determine a specific moment when globalization started or to describe exact stages of its historical development.
- History shows no obvious time on which everyone will agree.
- Although considerable groundwork for globalization was laid in earlier times, the noun “globalization” entered a dictionary for the first time in 1961.

- Generally speaking, commentators have linked globalization:
- - to the rise of the information society,
- - the beginning of late capitalism,
- - the end of communism, and even the end of history.

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Global players or Institution of globalization

- **Global players of globalization may be divided into three categories:**
  - leading actors, or global corporations;
  - supporting actors, or international governmental organizations (IGOs); and
  - international non-governmental organizations (NGOs).

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Global corporations /multinational corporations

- Global corporations, or multinational corporations (MNCs), are defined as companies that have their home (or headquarters) in one country, but have operations and investments in many others.

- Examples of such corporations are the major automobile manufacturers such as Ford, General Motors, and Toyota; high-tech companies like IBM, Intel, and Motorola …….

- What distinguishes global corporations from domestic corporations is that the former compete globally, while the latter compete only in their domestic market.

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Global corporations /multinational corporations

- Most MNCs, like Coca-Cola and General Motors, began their commercial history as domestic companies and then expanded abroad for a number of reasons.
  - for additional markets,
    - for raw materials,
    - to take advantage of lower wages in order to keep costs down

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Supporting Actors /International Governmental Organizations

- International governmental organizations (IGOs) are governmental organizations formed by agreements or treaties among nations.

- There are about 6,500 IGOs in existence today. Some of the most prominent are :
- The International Monetary Fund (IMF);
- The World Trade Organization (WTO);
- The United Nations,
- The Asian Development Bank and the European Bank for Reconstruction and Development and others

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Non-Governmental Organizations

- Non-governmental organizations (NGOs) are private organizations that pursue activities to protect the environment, provide social services, and undertake economic and community development.
- These organizations are independent from governments. Since they are not funded by governments, they depend upon charitable donations and voluntary service.
- NGOs have been classified according to whether they provide relief, such as humanitarian aid, or help in economic development; whether they are religious or secular oriented; or whether they are more active in the private or the public sector.

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Argument for and against of Globalization

FOR	AGAINST
▪ Globalization creates employment and income	▪ Globalization leads to income Inequality and poverty.
▪ Foreign subsidiaries in developing countries provide investment and employment and pay high wages to workers.	▪ Globalization is being exploited by multinational corporations; globalization exploits workers.
▪ Globalization advances living standards.	▪ Globalization causes financial instability.

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Argument for and against of Globalization

FOR

- Globalization creates jobs.
- Global companies are working hard to improve their environmental performance.
- It is foolish to believe that a world of 6 billion people will somehow form a monoculture.

AGAINST

- Globalization exports jobs.
- Global companies place environmentally degrading industries in developing countries.
- Globalization will result in the end of cultural diversity.

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Debates on globalization

- Is globalization a new process or a continuation of the past?
- Is globalization connecting all or has marginalizing effect?
- Is globalization leading to homogenization of culture or heterogeneity?

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Debates on globalization

In this regard, there are three perspectives:

- 1. The hyper-globalists,
- 2. The skeptics, and
- 3. Transformationlist.

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The hyper-globalists

- In the present era we observe an existence of a single global economy integrating the world's major economic regions.
- Today it is global finance and corporate capital, rather than states, which influence organization, location and distribution of economic power and wealth.
-
- Multilateral institutions of global economic surveillance, especially the G7, IMF, World Bank and WTO, function to manage this growing 'global market civilization'.

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The hyper-globalists

In this 'runaway world'

nation states

can no longer

effectively manage or regulate

their own national economies

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HYPERGLOBALIST PERSPECTIVE

- Creating new relationship with nations.
- World economy is controlled by market place.
- Globalisation weakens the power of government.
- Technological advances has mass culture.
- World economy as a single unit.

skeptics

- Globalization is a phenomenon connected to the richest countries
- There is no unified global economy
- The world is breaking up into several major economic and political blocs
- Too much emphasis on footloose capital and a new global capitalist order

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SKEPTICAL PERSPECTIVE

- Globalisation process is separated and regionalised.
- World is not becoming a single market.
- Require a strong nation to facilitate trade and regulate running of global economy.
- Globalisation, regions migrates from globalised economy.

Transformationlist

- Globalization determines new international order
- International relations are influenced by globalization
- States have to adjust their role to the new situation
- New institutions come into picture and new regulations must be applied

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TRANSFORMATIONALIST PERPECTIVE

- Differs from other two.
- No individual is cause behind globalisation.
  (phenomenon which progresses slowly.)
- Outcome is not determined.
- Not bothers about historical events or factors; concerns with the present.
- Power of National Government increases but their nature changes.

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3 schools of thought – summary

- 1. Hyperglobalizers
  - one single global economy; end of state
- 2. Skeptics
  - 3 major economical regional blocs; states less important
- 3. Transformationalists
  - new international order; states still important and in control of economy

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Major attitudes to word globalization

- Always two major attitudes
  1) PRO globalization

  2) ANTI globalization

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PRO globalization

- Globalization is an excellent process of the world development
- Only in the globalization effects can we find the future of international relations
- It is a time of new world order adjusted to new situations

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Anti-Globalization Movement

- The anti-globalization movement developed in the late 20th century to fight the globalization of corporate economic activity and the free trade with developing nations that might result from such activity.





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Anti-Globalization Movement

- Globalization is all the evil in today's world and cares only about money
- It divides the world into rich and poor (North and South of the world)
- It is the cause of all the global problems
- Members of the anti-globalization movement generally advocate anarchist, nationalist, socialist, social democratic or environmentalist alternatives.

- Although supporters of the movement often work together, the movement itself is diverse.

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Defining Regionalism and Regional Integration

- Region can be defined as a limited number of states linked together by a geographical relationship and by a degree of mutual interdependence (Nye, 1968).

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