GLOBAL TRENDS

CHAPTER FOUR: INTERNATIONAL POLITICAL ECONOMY (IPE)

What is IPE?

- IPE (International Political Economy) is the study of politics of international activities(with focus on trade, monetary relations and Multinational Corporations (MNCs).
- IPE targets industrialized regions but now the Global South has received growing attention.

Nexus of Politics (State) and Economics (Market)

- Traditionally Economics and Political Science are separate departments in universities.
- In the real world, scholars find it difficult to separate economic and political variables.

Nexus (continued)

- Economics is the system of producing, distributing and using of wealth.
- Politics involves the set of institutions and rules that govern social and economic interactions.
- Politics and Economics overlap and intermix in complex ways. Each molds the other. For instance trade competition drew USA to recognize Vietnam in 1984 before Japan took advantage, knowing the consequence of non-recognizing Vietnam.

Contending Perspectives (Theories)

There are various perspectives or theories of IPE.

1. **Mercantilism** (known as economic nationalism, advanced by Friedrich List)
   - Began in the 17th century along the state system
   - Demands the state to build up it economy so as to pay for the military power and enhance state security
   - Desires to advance industries and avoid economic dependence on others
   - Economic relations are conflicting as states seek relative gains at the expense of other states, rather than relative gains based on cooperation with them.

Theories (continued)

2. **Liberalism** (known Liberal economist was Adam Smith)

- Began in the 18th century, challenging Mercantilism.
- It advocates to free market system.
- Economy should be guided by “unseen hand”, market forces of Supply and Demand
- The Liberal trade order has three significant stresses.
  - Major trade states (EU, Japan and USA) have entered in fierce (adversarial) competition.
  - Eastern and Western Europe exist at distinct economic levels.
  - Ineradicable economic gulf separates the North (rich) and the South (poor) states

Theories (continued)

3. Marxism (advanced by Karl Marx)

- It is a 19th century perspective
- It believes that class conflict between factory owner (Ruling class) and workers (working class) overturns the capitalist system.
- According to Marxism, World War One was result of fierce competition among capitalist states.

Through time, liberalism had won mercantilism and survived the challenges of Marxism

Theories (continued)

4. **Comparative Advantage** (advanced by David Ricardo)
   - Different states enjoy in producing different goods.
   - States differ in their abilities to produce goods (because states exhibit different natural resources, labor force characteristics …)
   - In order to maximize wealth each state should specialize in producing goods to have comparative advantage and trade for goods that another state is better producing.

Theories (continued)

5. The Developmental State Model

- Known as development capitalism
- The theory advocates that the state has more independent or autonomous political power as well as more control over the economy.
- It is characterized by having strong state intervention as well as extensive regulation and planning
- It is a phenomenon of state-led macro-economic planning

The Political-Economy of the South

- The North known as G-7 (sometime G-8) whereas the Global South known as G-77 (but now around 128 states)
- The biggest challenge for the international society may be the North – South economic disparity.
- For better understanding, in the following section we shall see the conditions of the South and the link between the North and the South

Conditions of the South and economic flows that link the North - South

1. Inequality
   - Difference in income (North enjoy high income whereas the South is in low income category).
   - Level of quality of life (The North is literate, life span is high, infant mortality is low … whereas the South has high number illiterates, life span is low, infant mortality is high…)
2. Industrialization … etc
   - South ---- industrial base is older 1st generation whereas the North is in high tech (4 / 5 generation)
   - South exports raw materials (primary products) whereas the North exports finished goods (producer goods)

3. Infrastructure

- The South has no and weak infrastructure
- The North has developed and strong infrastructure

4. Over Population

- The South has over 4.5 billion people which demands housing, jobs, schools and the likes
- The North has 1.5 billion which addresses basic necessities

5. History of Turmoil

- The South is victim of internal wars (such as civil war, revolution. The East Africa region has suffered warfare more than any other region
- The North experience less conflict after World War Two.

6. Global Debt

- The South takes loan from the North and is under huge debt (global debt bomb)
- The North is lender