INTERNATIONAL POLITICAL ECONOMY

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Summary

International Political Economy (IPE) is an interdisciplinary social science field of study that emerged from the breakdown of the disciplinary barriers that divide International Economics from International Politics (or International Relations). IPE studies problems associated with international trade, international finance, North-South relations, multinational corporations, hegemony, and globalization. The domain of IPE is expanding beyond these issues, however, as IPE shifts from the traditional concerns of international politics to an even broader set of social, political, and economic issues.

1. Introduction

International Political Economy (IPE) attempts to understand international and global problems using an eclectic interdisciplinary array of analytical tools and theories. The growing prominence of IPE as a field of study is in part a result of the continuing breakdown of disciplinary boundaries between economics and politics in particular and among the social sciences generally. Increasingly, the most pressing and interesting problems are those that can best be understood from a multidisciplinary, interdisciplinary, or transdisciplinary point of view. If there is an "IPE Project" its objective is to pull down the fences that restrict intellectual inquiry in the social sciences so that important questions and problems can be examined without reference to disciplinary borders.

IPE is perhaps best understood as the interdisciplinary study of a *problématique*, or set of related problems. The traditional IPE *problématique* includes analysis of the political economy of international trade, international finance, North-South relations, multinational corporations, and hegemony. The IPE *problématique* is currently expanding as scholarly focus shifts from Cold War concerns to the issues raised by economic globalization. IPE's domain has been further broadened in recent years as many scholars have sought to establish a New IPE that is less centered on International Politics and the problems of the nation-state and less focused on economic policy issues. These scholars seek to create a new discipline of IPE that would transcend the perceived limits of International Politics and International Economics as fields of study and research.

2. International Economics and International Politics

It is hard to imagine a world without International Political Economy because the mutual interaction of International Politics (or International Relations) and International Economics is today widely appreciated and the subject of much theoretical research and applied policy analysis. The political actions of nation-states clearly affect international trade and monetary flows, which in turn affect the environment in which nation-states make political choices and entrepreneurs make economic choices. It seems impossible to consider important questions of International Politics or International Economics without taking these mutual influences and effects into account.

And yet scholars and policy-makers often do seem to think about International Economics without much attention to International Politics and vice versa. Economists often assume away state interests while political scientists sometimes fail to look beyond the nation-state; both miss the dynamic interaction of state and market that characterizes political economy. It is sometimes argued that the wall between International Economics and International Politics was especially formidable during the Cold War. Two noteworthy Cold War era exceptions to this rule stand out: economist Charles P. Kindleberger's work on hegemony and political scientist Kenneth N. Waltz's attempt to integrate economics into politics in his path-breaking book *Man, the State, and War*.

The mutual astigmatism that hid International Politics and International Economics from each other cleared in the 1970s as a number of dramatic international events made plain how tightly the two fields were intertwined. The oil embargoes of the 1970s and the breakdown of the Bretton Woods monetary system are frequently cited as key events in IPE's development as a field of study. These events posed practical and

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theoretical problems that necessarily forced scholars and policy-makers to consider economics and politics together.

The rise of the Organization of Petroleum Exporting Countries (OPEC) and the Arab oil embargo of 1973-74 illustrated dramatically at least five key dimensions of IPE.

- First, it showed the power and influence of economic tools in foreign policy. After OPEC no state could dare make political policy without taking into account potential foreign economic retaliation or reaction.
- Second, the oil embargo showed that East-West issues were not always the state's most important concerns -- North-South political and economic problems could no longer be ignored or dealt with as ancillary to Cold War strategy. To the extent that economic issues were closer to the surface in North-South relations, this reinforced the notion that politics was really political economy.
- Third, the oil embargo revealed the complex interdependence between and among domestic politics, domestic economics, international politics, and international economics.
- Fourth, the oil embargo raised questions about the role of multinational corporations (MNCs) in international economics and politics. MNCs had previously been viewed by many scholars as agents of influence of their home country governments (this was especially true of US-based MNCs), but now their political allegiance appeared to be more ambiguous. Were the oil MNCs tools of their western home governments, agents of their OPEC host governments, or were they acting as pure economic actors independent of home or host political ties?
- Finally, the shifting international payments flows that the oil embargo stimulated were the start of the movement towards a global financial system and, with it, economic globalization generally. Increasingly, economic and political problems would be seen as global, not just international, and beyond the control of individual nation-states.

The breakdown of the Bretton Woods system in the 1970s also contributed to the emergence of International Political Economy as a distinct field of study. The Bretton Woods system is generally interpreted as a system of economic governance constructed to support U.S. hegemony in the postwar era. Each of the main Bretton Woods institutions, the World Bank, the IMF, and the GATT depended upon the United States to play a central leadership role.

On August 15, 1971, however, US President Richard Nixon suspended the link between the US dollar and gold, which was the critical element of the Bretton Woods monetary system. Nixon's action changed everything. The fixed exchange rate system that had defined world money in the postwar era soon collapsed. More importantly, Nixon's policy was seen as a sign that the US had put its domestic political and economic problems ahead of its international responsibilities. The decline of US hegemony was both political and economic in both cause and consequence. Scholars found it necessary repeatedly to cross the border between economics and politics to make sense of the situation. David P. Calleo's book on *The Imperious Economy* is a classic study from this period of the political economy of hegemony.

The rise of OPEC and the decline of US hegemony were just two events that broke down the artificial division of International Economics and International Politics that had in some respects characterized the Bretton Woods era. Other events such as the

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Third World debt crisis, the fall of communist regimes, the rise of the East Asian Newly Industrialized Countries (NICS), the expansion of the European Union, and the financial crises in Mexico, Russia, and East Asia all provided impetus for the growth and development of IPE studies. The simple divisions between state and market, domestic and international, and politics and economics were no longer applicable to a wide range of issues. An increasingly complex world required a complex approach to analysis, which IPE provided.
[see Cold War, Organization of Petroleum Exporting Countries, Bretton Woods System]

3. The IPE Problématique

IPE is thus perhaps best defined as a *problématique*, a set of problems that bear some relationship to one another. The IPE *problématique* is the set of international and global problems that cannot usefully be understood or analyzed as *just* International Politics or *just* International Economics. These problems fall necessarily in the expanding domain of International Political Economy.

The main line of development of IPE in the 1970s and 1980s was centered in the International Relations community and took the form of the analysis of what was called in book titles and course catalogues "The Politics of International Economic Relations" or "The Political Economy of International Relations." By either name, the goal was to analyze the interaction of economics and politics in the international affairs of nation-states or, more narrowly, how economic factors influenced International Relations. Although IPE research took many directions in this period, five sets of questions dominated the agenda: international trade, international finance, North-South relations, MNCs, and the problem of hegemony. A sixth concern -- globalization -- was soon added to the list.

3.1. International Trade

Politics and Economics approach international trade from completely different points of view using completely different analytical frameworks. The problem is that states think in terms of geography and population, which are the relatively stable factors that define its domain while markets are defined by exchange and the extent of the forward and backward linkages that derive therefrom. The borders of markets are dynamic, transparent, and porous; they rarely coincide exactly with the borders of states and a few markets today are even global in their reach. When trade within a market involves buyers and sellers in different nation-states, it becomes international trade and the object of political scrutiny.

The political analysis of this subject treats international trade as fundamentally different from domestic economic activity (while economic theory sees no important distinction between the two). The international exchange of goods, services, or resources with another country raises many political questions of national interest, especially questions concerning the economic and military security of the nation.

Although it is easy to oversimplify these security concerns (exports are desirable because they increase a nation's monetary reserves and create jobs whereas imports

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should be avoided because they create dependency, reduce national reserves, and threaten domestic business and labor interests) in practice the political analysis of international trade is far more complex. Exports create jobs, but their full impact on national security depends upon what is exported to whom and on what terms. An export of technology that has critical military or economic applications tends to weaken national security, not strengthen it. Nations have frequently imposed export controls for both economic and military reasons. Exports of primary products at unfavorable terms of trade with respect to manufactured goods and technology can create fears of economic dependency. Moreover, although a trade surplus does increase reserves, an excessively large bilateral surplus of exports over imports can create political problems, such as those that Japan has experienced with respect to the United States. High export penetration is sometimes seen as an aggressive policy by the target nation, which may react to defend its perceived security interests. A nation-state therefore has an interest in managing the nature of its exports to other countries and in monitoring its trade relationships with other countries.

Imports also raise complex security issues. Although imports may reduce or threaten domestic employment, create the potential for external dependency, and reduce domestic monetary reserves, there is more to the IPE of trade policy than simple protectionism. Imports may be vital to domestic military and economic security, for example, so that national interest requires secure sources of specific imports, not necessarily fewer of them. This is especially true regarding high-technology military hardware, which may be assembled in one country but use parts and services from a number of other countries. It may be impossible or impractical to avoid some foreign sourcing, so attention shifts from eliminating imports to establishing secure supply chains.

Willingness to permit imports from foreign nations can also be used as a foreign policy tool. During the Cold War, for example, the United States frequently used access to its domestic market as a bargaining chip in negotiations with other countries. Linking imports with political policies has continued since the Cold War, too, as illustrated by the US and European Union negotiations with China regarding entrance to the World Trade Organization.

Trade embargoes are another economic tool of foreign policy and a great deal of IPE research has focused upon the political economy of trade policies. The multilateral economic embargo on South Africa, for example, linked that nation's policy of racial apartheid with international trade. The logic of an embargo is to shut off imports of many vital items and reduce export earning, thereby reducing domestic welfare and providing the state with an incentive to change its policies. The South Africa embargo was relatively successful in this respect, although ending the embargo was obviously not the only reason why that government ended apartheid. The U.S. trade embargo against Cuba, on the other hand, has been ineffective is bringing down the Castro government. The conditions for the effective use of trade and trade embargoes in foreign policy are a productive area of IPE research.

Much of the work on the IPE of international trade has been, as seen above, an attempt to bring economic factors into the study of International Relations by taking economic

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security concerns and economic foreign policy tools into consideration. This process has also produced a counter flow -- bringing political factors into the analysis of International Economics. Adding politics to economics is not a straightforward process. The conventional economic analysis of international trade is based upon the Heckscher-Ohlin-Samuelson factor proportions theory, which provides a neoclassical analytical framework for the study of comparative advantage. This theory is essentially stateless and therefore apolitical. What the factor proportions theory has to say about trade between two nations is not fundamentally different from the analysis of trade between two regions (Northern England and Southern England, for example), or trade between two cities or tribes.

What should the state's policy be towards international trade? Interestingly, this is the one question on which economists agree. Except in certain special cases, free trade results in an efficient allocation of resources and therefore maximizes the value of those resources globally. Basically free trade eliminates the waste that occurs when goods and services are produced inefficiently. The key to this economic analysis is that it is unconcerned with where production takes place (at home or abroad) and only concerned with maximizing the value of the resources used in production and minimizing the waste of inefficient local production.

In short, the economic theory of comparative advantage does not care *where* the wheat in your bread was grown, or *who* baked the loaf, but only that the production of the bread is not inefficient or wasteful. Nation-states define themselves by population and geography. States, therefore, *do* care about the where and the who and this creates a tension between the economic and the political analysis of trade.

The design of the postwar international trade institutions was heavily conditioned both by the free trade views of economists and by the interwar experience of beggar-thy-neighbor trade policies that created an environment of destructive competition and retaliation. Thus the mission of the WTO, and before that the General Agreement on Tariffs and Trade (the GATT), is to reduce the barriers progressively to free trade through multilateral negotiations. This movement towards global free trade, however, has not stopped states from using trade tools to further their own foreign policy goals when they can. Thus we live in an environment where the political and the economic viewpoints of international trade compete for attention.

The advent of free trade areas such as the North American Free Trade Area (NAFTA) and customs unions like the European Union (EU) provides a good example of the political economy of international trade. Regional trade agreements like NAFTA and the EU frequently use economic tools to achieve political goals. One of the political goals of European economic integration, for example, was to strengthen the western Cold War alliance. One of the political goals of NAFTA was to stabilize and strengthen Mexico's democratic system. The economic benefits of regional free trade are intended to compensate states and their citizens for the loss of sovereignty and other political costs they may bear in forming a regional bloc. Thus, in theory, regional blocs create both political and economic benefits.

At the same time, however, there are political and economic costs. Politically there is

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the problem of the democracy deficit. As more and more policy decisions are made at a level above that of the nation-state, the link between citizens and policy is necessarily weakened, which may weaken the legitimacy of government generally. Economically there is the problem that regional free trade is not always consistent with global free trade. Regional trade blocs may experience trade diversion where production shifts from a more efficient producer outside the regional bloc to a less efficient producer within the bloc. This inefficiency wastes scarce resources and reduces global welfare, according to the economic analysis. Thus freer trade is not necessarily the road to free trade.

International trade has always been at the center of IPE analysis and is likely to remain so in the future. This is not so much because of the economic and political importance of international trade itself as due to of the fact that trade is a mirror that reflects each era's most important state-market tensions. In the Cold War, for example, international trade was simultaneously a structure of US hegemony and a tool of East-West strategy. In the 1980s and 1990s, trade, through regional economic integration, was a tool to consolidate regional interests. With the advent of globalization and the creative economy powered by advanced information technologies, trade in intellectual property rights has become a controversial IPE issue. International trade will remain a central focus of IPE even as the specific trade problems continue to evolve.
[see Mercantilism]

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Biographical Sketch

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