The History of
International Political Economy

Min Shu
Waseda University
Outline of the lecture

- IPE as a historically contingent subject
- Pre-modern international trade
- Industrial revolution and colonialism
- Economic crises and their consequences
- The structure of contemporary IPE
IPE as a Historically Contingent Subject

The evolution of international politics and economy, as well as of their interaction, was a gradual process.

- Pre-modern interaction: asymmetric dependence on transnational economic exchanges
- Industrialization and colonialism: mass production and overseas markets
- Global politics and economy: interdependent (i.e., contagious) economic and political decisions
- Possible cross-temporal complexity
IPE as a Historically Contingent Subject

- The key theoretical and policy issues that attract our attention change over time.
  - IPE is contingent on the existing nature and problems of world politics and international economy.
    - Pre-modern era: hierarchical international relations and pre-modern states
    - Industrialization period: domestic growth and international market
    - Globalization: worldwide prosperity and the human-nature sustainability
  - Yet, we may adopt a modern mind-set to interpret pre-modern politico-economic phenomena
  - How much can we go beyond the present to ‘see’ the past and the future?
IPE as a Historically Contingent Subject

- The available methods of academic inquiry vary considerably across different historical periods
  - Conceptual frameworks
  - Analytical approaches
  - Data collection techniques
  - General implications
  - ...

- All these imply that we should treat IPE as a historically contingent subject with its own strength and limitation of explanation and argumentation
Pre-Modern International Trade

● Trade was *not* an indispensable part of the pre-modern world
  ■ Limited, risky and inefficient transportation
  ■ Self-sufficiency was considered as a virtue (and sometimes an obligation)
  ■ The political implications of trade
    Interplay of two socio-political dynamics: ‘the bottom-up building of regional hierarchies based on trade and manufacturing, [and] the top-down imposition of political control.’ ---- Tilly (1992)

● Yet, trans-border exchanges of goods were widely practiced in the pre-modern era
  ■ Ancient Rome, Venice, Hanseatic League…
  ■ The Silk Road, Tributary trade…
Pre-Modern International Trade

- Trade as an essential way to bring power and wealth
  - The Republic of Venice (697-1797)
Pre-Modern International Trade

- Melaka (1402-1511)
- Ryukyu Kingdom (1429-1879)
Pre-Modern International Trade

- Trade as a secondary issue after domestic politics
  
  The China-centered tributary trade in East Asia
  
  - Tributary trade was an integral part of the hierarchical tribute system dominated by China
  
  - The main objective of tributary trade was not to benefit from the commercial interests of trade, but to reward the tribute-paying countries,

  ‘The value of the tribute objects [offered to China] was certainly balanced, if not out-weighed, by the imperial gifts [of the Chinese court].’

  ----- Fairbank (1942)

  - Tributary trade flourished during the periods when private foreign trade was officially banned by China
Pre-Modern International Trade

Land-based trade routes controlled by the Ottoman Empire (1299-1923)

- Considerable state control and regulation of trade
- Europeans was forced to seek alternative trade routes
The industrial revolution between mid-18th and 19th century transformed the economic landscape of Western Europe.

- Mass production in the manufacturing (esp. textile) and mining industries
- Greatly improved efficiency and reliability of modern transportation (e.g., canal, railway, stream ships)
- The demand for international trade and overseas market increased
Industrial Revolution and Colonialism

- The European competition for colonies
  - Successful voyages of discovery secured alternative trade routes for Portugal and Spain in the 16\textsuperscript{th} century
  - Latin America and maritime Southeast Asia were colonized, bringing spices, gold and silver bullion, coffee, cocoa, tea and other products back to Europe
  - The Netherlands, Britain and France soon joined the race of pursing overseas colonies
  - The roles of charted semi-private companies like the Dutch East India Company and the British East India Company
  - The pursuit of commercial interests became a major objective of European overseas expansion
Industrial Revolution and Colonialism

- Late comers in industrial revolution such as Germany, and Japan similarly adopted an expansionary policy to secure overseas resources and markets.

- Growing competition among industrialized economies in international politics.

- By the end of the 19th century, the (capitalist) world economy was more or less in place:
  - Exclusive (i.e., non-liberalized) trade between industrialized economies and their colonies.
  - Commercial relations among industrialized economies: liberalization vs. protection.
Competition for Overseas Colonies

Colonies and Empires in 1898
Britain’s domination in world economy and politics created a period of *Pax Britannica* between 1815-1914.

In 1846, the British Parliament repealed the **Corn Law** and moved decisively towards trade liberalization.

The Cobden-Chevalier treaty between Britain and France allowed free trade and established the **most-favored-nation (MFN)** principle. By 1870s a network of trade agreement made free trade virtually a norm in Europe and beyond.

Financially, Britain adopted the **gold standard** in 1821, the US followed suit in 1834, and other industrialized economies did the same by 1870s.
As the world economy became increasingly integrated through free trade and the gold standard, the fluctuation in production and price also globalized.

There are (at least) four major international economic crises since the 19th century:

- 1873-1890s
- 1929-1930s
- 1971-1980s
- 2008-2010s
Economic Crises and Their Consequences

- The international economic crises directly influenced the domestic political coalition
  - International economic fluctuation → domestic economy and politics
  - ‘the second image reversed: international sources of domestic politics’  
    ---- Gourevitch (1978)

- After the industrial revolution, three societal interests dominated domestic politico-economic scenes
  - Land-owners
  - Capital-owners
  - Labor
Economic Crises and Their Consequences

- The economic crisis in 1873-1890s
  - In 1873 financial panics occurred in Vienna and New York and quickly spread to major industrial economies
  - Prices fell worldwide until the 1890s

Response to the crisis varied across different countries

- **UK**: free trade in both agriculture and manufacture sectors
- **US**: free trade in agriculture, but protectionism in manufacture sectors
- **Other European economies**: the *iron-rye coalition* emerged, protectionism in both agriculture and manufacture sectors

- The free trade order dominated by Britain ended
Economic Crises and Their Consequences

- The Great Depression in 1929-1930s
  - On 24 October 1929 (‘Black Thursday’) panic selling in the New York Stock Exchange triggered the Depression
  - Worldwide output decline, severe unemployment, and acute deflation followed

![Graph showing US GDP and Unemployment in the US](images)
Economic Crises and Their Consequences

Domestic coalition and responses to the Great Depression

- **UK**: left the gold standard in 1931 → pound devaluation; raising tariffs on import; cutting wages; subsidies for agriculture; limited aids to industry

- **US**: FDR led two ‘New Deals’ to offer stimulus to domestic economy, based on the grand support of labor, agriculture and business

- **Germany**: the Nazi government drew together agriculture, business, and unorganized labor in an regime based on populism, racism and imperialism; large-scale military spending and economic nationalization followed

- **Sweden**: the Agrarian party and the Social Democrats formed an (initial) alliance; the Saltsjobaden Accord of 1938 brought business into the coalition; a corporatism-based welfare system gradually established
The post WWII structure of world economy was created even before the war ended

- International finance: the Bretton Woods System (July 1944)

- International development and crisis management: the World Bank (Group) and the IMF (International Monetary Fund) were established in 1944 and 1945

- International trade: the failed attempt to create a ITO (International Trade Organization) led to the GATT (General Agreement on Tariffs and Trade) in 1946
The Establishment of the IMF

In this room the Articles of Agreement setting up the International Monetary Fund were signed in July 1944.
The US domination in world economy and politics, at least within the West, led to the so-called *Pax Americanna* between 1945 and 1971.

- Unprecedented economic growth in industrialized capitalist economies
- Gradual liberalization of international trade through the successive rounds of GATT negotiations
- Stable international finance based on the Bretton Woods system (i.e., fixed exchange rate among major economies, and full convertibility between US dollars and gold)
- The growing influences of multinational corporations (MNCs)
However, the post-war structure of world economy was short-lived

- The Nixon Shock in 1971: ending the convertibility between the US dollar and gold → Bretton Woods system collapsed

- The rapid growth of German and Japanese economies in the post-war period → the Plaza Accord in 1985

- Increasing importance of regional economic blocs, such as the European Economic Community

- Regular coordination among the leading industrialized economies (G7) became necessary
Economic Crises and Their Consequences

- Oil shock and the economic crisis in 1971-1980s
  - OPEC’s Arab members imposed oil embargos in 1973
  - The supply-side crisis, though short-lived, was influential

- The UK and the US under Thatcher and Reagan saw an overhaul of economic policy and regulation
  - Agriculture and business formed a firm alliance to pursue neo-liberal economic growth (… how about Japan?)
  - Capital became increasingly globalized
  - Labor lost their political influences…

- The fall of communism and the rise of the ‘Washington Consensus’ in the 1990s reinforced the neo-liberal influences
Then, the global financial crisis in 2007/08: a crisis of the financial deregulation, neoliberal ideology, and economic regionalization and globalization

“Crisis are times of danger, as the career of Adolf Hitler constantly reminds us. But they are also moments for hope, as Swedish social democracy suggests.

“The future always requires imagination: politicians require imagination to find new ways of linking policy goals to coalitions; social scientists require imagination to conceptualize policy opinions, social categories, ideologies and structures, and the various ways that these elements may combine.
“I tend to favor the metaphor of plate tectonics, but that proclivity is the pessimistic side of a hope in the possible. My optimistic side favors the metaphor of sailboats on a pond: it sees choice and has heroes.

“In this tale my heroes are those activists who thought up combinations that linked progressive political ideals with the realities of markets and power: Wigfors in Sweden, Woytinski in Germany, Bevin and Keynes in the United Kingdom, and, in the United States, FDR. Alas, creativity can be demonic in a Hitler or Stalin. But even the demons have lessons to teach; and from them we can learn whether there are ways to avoid them.”

------ Gourevitch (1986) Politics in Hard Times