Theories of International Political Economy I: Realism and Liberalism

Min Shu
Waseda University
An outline of the lecture

- Subjects of IPE studies
- Four theoretical traditions of IPE
  - Traditional realist IPE theories
  - Modern realist IPE theories
- The assumptions of Liberalist IPE theories
  - Different liberalist IPE theories
- Essay on the Global Financial Crisis
Essay on the Global Financial Crisis

- Watch the Oscar-winning documentary ‘Inside Job’ (105 minutes)

- Write a short essay of 800~1000 English words to discuss the global financial crisis (GFC)
  - How different was the GFC from the previous crises?
  - Who should be blamed: the bankers, the investors, the creditor rating agencies, or the regulators?
  - What were the direct and indirect consequences of the GFC?
  - Did the GFC changed anything in your (family’s) real life?

- The essay should be submitted to course n@vi, with a deadline of mid-night May 7 (Monday)
Subjects of IPE studies

- Established IPE subjects
  - International trade
    - Trade liberalization and protection
    - FTAs, Regional blocs, and WTO agreements
  - International finance
    - Fixed exchange rate, floating exchange rate
    - Central bank independence
    - Financial crisis
  - Multinational production
    - Multinational companies (MNCs)
    - Global value chains
Subjects of IPE studies

- **Emerging IPE subjects**
  - International development
    - Economic growth of developing countries
    - Poverty reduction in LDCs
  - Regional cooperation and integration
    - Economic regionalism: NAFTA, the Euro
    - Regional institutions: the EU, ASEAN
  - Environmental problems
    - Pollution, climate change, sustainable development
  - Globalization and its consequences
    - Global flows of people, information, and goods
    - Anti-globalization movement & policies
Four theoretical traditions of IPE

- **Realism**
  - State interests
  - Power struggles among independent states
  - International economy is vital to the power of the state

- **Liberalism**
  - Interdependence
  - Emphasising possible coordination among states
  - The roles of international institutions
Four theoretical traditions of IPE

- **Marxism**
  - Class struggles at the international level
  - Competing for colonial territories
  - Dependency theory

- **Constructivism**
  - ‘Social constructivism’
  - The norms of international society
  - Influences of idea and identity
Traditional realism

- Power in international political economy
  - Power: the ability to control a subject (people or things)
  - Power in international relations: state power
  - The use of power in international political economy

- Sources of power in IPE
  - Natural resources
  - Capitals
  - Market potentials
  - Comparative advantage in production
  - Asymmetric interdependence
Traditional realism

The main assumption and argument of realism

- The chief actor of IPE is the state
  - International relations are centred around inter-state interaction

- Domestic groups and organizations operate on behalf of the state
  - Realism downplays domestic conflicts, and perceives a smooth process of domestic interest coordination/aggregation

- Priority: the pursuit of national interest and state power

- The behavior of the state follows the logic of rational choice
  - So, it is possible to analyse the dynamics of inter-state interaction (e.g., using game theory)
Traditional realism

- Mercantilism
  - History
    - Economic policies and thoughts in (Continental) Europe between the 16th and the 18th century
  - Features
    - Bullionism: precious metals are important source of state wealth
    - Maintaining trade surplus
    - Protecting domestic industries
  - Objectives
    - Domestic economic capacity
    - National/state wealth accumulation
Modern realism

- The theory of hegemonic stability
  - International public goods
    - International orders and global stability
    - Measures to deal with international problems
  - Hegemonic state
    - The dominant state that holds enormous power (in cultural, economic and military arenas)
    - Moreover, it is *willing* to control and influence other states
  - The hegemonic state offers international public goods (and bears their cost) to ensure global stability
    - The openness of international trade system: trade liberalisation
    - Dealing with the consequences of economic crisis
The arguments of liberalism

- The actors of IPE are not limited to the state
  - International organizations play a special role
  - Domestic groups may take different stands on policy matters

- The link between international and domestic politics
  - Domestic politics may decide international relations
  - International issues also influence domestic politics and economy

- The objectives of the state
  - Guaranteeing the security, freedom and ownership of citizens
  - Maintaining the order of international political economy
The arguments of liberalism

- Economic interdependence
  - Free trade deepens international economic interdependence
  - Economic interdependence brings international peace

- Some order in international politico-economic relations
  - The state’s objectives are not just achieving national interests
  - Inter-state coordination or/and regional integration may lead to international orders
  - International organizations may provide an institutional platform to maintain existing, and create new, international orders
Liberalist IPE theories

- Interdependence
  - Symmetric interdependence and asymmetric interdependence
    - Asymmetric interdependence could be a source of international conflicts
  - Complex interdependence
    - Inter-state interdependence over multiple issue areas
    - The diplomatic and civilian channels of inter-state communication
    - Declining importance of military capability

- Complex interdependence facilitates coordinated international relations
Liberalist IPE theories

- A game-theoretic interpretation of international cooperation
  - The prisoners’ dilemma
  - Shadow of the future
tit-for-tat vs. defection
(here, repeated prisoners’ dilemma with 60% of the chance of re-playing)

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Liberalist IPE theories

- **International regime**
  - Definition: a set of explicit or implicit principles, norms, rules, and decision-making procedures around which actors’ expectation converge in a given issue-area
  - Roles: promoting international coordination and cooperation (reduced transaction cost, increased transparency of behaviour, generating mutual expectation)

- **Non-state actors**
  - Multinational companies (corporations)
  - Transnational movement
  - International NGOs
  - International Organizations
Liberalist IPE theories

Two-level games (Putnam, 1988)
- The relationship between international negotiation and domestic politics
  - Level one: international negotiation
  - Level two: domestic ratification
  - International agreement must be ratified domestically
- Win-set
  - The limited domain of international agreements that can be ratified domestically
- Two propositions
  - The less the win-sets of the negotiating countries overlap, the more difficult international negotiation becomes.
  - Smaller domestic win-set may strengthen bargaining power of the negotiator
Liberalist IPE theories

- One-dimensional two-level game

- Two-dimensional two-level game