

# Approaches in Global Political Economy

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# What is IPE?



- International Political Economy (IPE) is the study of how economic interests and political processes interact to shape government policies (Oatley, 2004)
- The central of IPE research: (1) how do politics shape the decisions that societies make about how to use the resources that are available to them? (2) What are the consequences of these decisions?

# IPE and GPE



- IPE studies life in the global economy. It focuses most heavily on the enduring political battle between the winners and losers from global economic exchange and how this battle shapes the evolution of the global economy (Oatley, 2006)

# The IPE Approach



- The IPE approach is to synthesize methods and insights derived from economics, political science, and sociology as conditioned by an understanding of history and philosophy and an appreciation of the importance of culture (Balaam and Veseth, 2005)
- The synthesize is necessary: (1) the tendency of separate academic disciplines to focus on only certain elements of complex problems (2) the tendency of interdependent real-world issues to expand beyond any particular set of intellectual boundaries
- The IPE Approach: (1) Traditional schools of IPE (2) Analytical framework based on the interaction between interests and institutions (3) Gilpin's State-Centric Realism

# Traditional Schools: Mercantilism



- Mercantilism is a theoretical perspective that accounts for one of the basic compulsions of all nation-states: to create wealth and power in order to preserve and protect their national security and independence (Balaam and Veseth, 2005)
- It is a viewpoint deeply rooted in political realism, which looks at IPE issues mainly in terms of national interest.
- Basic assumptions of classical mercantilists (Oatley, 2004):
  - (1) National power and wealth were tightly connected
  - (2) Trade provided one way for countries to acquire wealth from abroad (through positive balance of trade)
  - (3) Some types of economic activity are more valuable than others (manufactured goods over primary commodities)

# Mercantilism



- Basic assumptions of “Modern” mercantilism (Oatley, 2006):
  - (1) Economic strength is a critical component of national power
  - (2) Trade is to be valued for exports, but governments should discourage imports whenever possible
  - (3) Some forms of economic activity are more valuable than others (high-technology manufacturing industries over mature manufacturing industries)
- State should play a large role in determining how society’s resources are allocated

# Traditional Schools: Liberalism



- It looks at IPE issues mainly in terms of individual interests. It believes in freedom, individual rights, and free markets (Balaam and Veseth, 2005).
- It focuses on the side of human nature that is competitive in a constructive way and is guided by reason, not emotion (Balaam and Veseth, 2005)
- Basic assumptions (Oatley, 2004): (1) Attempt to draw a strong line between politics and economics (2) Countries gain from trade regardless of whether the balance of trade is positive or negative (3) Comparative advantage
- Resources should be allocated through voluntary market-based transaction between individuals
- States play limited role in this process (protecting ownership of property and resources; ensuring judicial system; resolving market failures)

# Traditional Schools: Marxism



- Originated in the work of Karl Marx as a critique of capitalism
- It looks at IPE issues mainly in terms of how classes, class interests, and ultimately all of society are shaped by the dominant economic structures. It sees IPE in terms of class exploitation driven by market forces. (Balaam and Veseth, 2005).
- The most political decisions are made by large capitalist enterprises supported by a political system controlled by the capitalist class (Oatley, 2004)
- The state exists to support and defend the interests of the dominant class of bourgeois capital owners.

# Three Traditional Schools of International Political Economy (Oatley, 2006)



	Mercantilism	Liberalism	Marxism
Most important actor	The state	Individuals	Classes, particularly the capitalist class
Role of the state	Intervene in the economy to allocate resources	Establish and enforce property rights to facilitate market-based exchange	Instrument of the capitalist class uses state power to sustain capitalist system
Image of the international economic system	Conflictual: countries compete for desirable industries and engage in trade conflicts as a result of this competition	Harmonious: the international economy offers benefits to all countries. The challenge is to create a political framework that enables countries to realize these benefits	Exploitation: capitalists exploit labor within countries; rich countries exploit poor countries in the international political economy
Proper objective of economic policy	Enhance power of the nation-state in international state system	Enhance aggregate social welfare	Promote an equitable distribution of wealth and income

# Weaknesses of the traditional schools [Oatley, 2004]



- Each school presents a coherent but largely self-contained interpretive framework that focuses on one aspect of the IPE and neglects many others → “either-or” mentality [in fact, the IPE fails to fit wholly into one of these three framework].
- These three traditional schools are often more useful for evaluating foreign economic policy outcomes than for explaining foreign economic policy decisions.
- Each traditional school offers an elaborate framework that tells us how governments should behave but none are good at telling us why governments adopt one set of foreign economic policies rather than another.

# The interaction between interests and institutions (Oatley, 2004)



- Basic assumption: governments' foreign economic policies reflect the interaction between societal interests and political institutions.
- The importance of two aspects of politics: (1) where the interests or economic policy preferences of groups in society come from (2) how political institutions aggregate, reconcile, and ultimately transform competing demands into foreign economic policies and a particular international economic system.

# Interests (Oatley, 2004; 2006)



- Interests are the goals or policy objectives that the central actors in the political system and in the economy—individuals, firms, labor unions, other interest groups, and government—want to use foreign economic policy to achieve
- Two mechanisms:
  - (1) Material interests that arise from their position in the global economy
  - (2) Ideas are mental models that provide a coherent set of beliefs about cause-and-effect relationships. In this context, ideas about how the economy operates can be a source of the preferences that groups have for particular economic policies → it is not whether a particular idea is true or not, but whether people in power, or people with influence over people with power, believe the idea to be true.

# Political Institutions (Oatley, 2004)



- To understand how interests are transformed into policies it is important to look into political institutions
- Political institutions establish the rules governing the political process. By establishing rules, they enable groups within countries, groups of countries in the international state system, to reach and enforce collective decisions.
- Political institutions thus allow groups to make collective decisions, and in doing so determine who gets to make these decisions, how they are to be made, and enforce these collective decisions.

# Conclusion (Oatley, 2004)



- A focus on interests and institutions is useful to develop a set of reasonably comprehensive answers to the question: how do politics shape societal decisions about how to allocate resources.
- The answers to that question will almost always begin by investigating the source of competing societal demands for resources and then explore how political institutions aggregate, reconcile, and ultimately transform these competing demands into foreign economic policies and a particular international economic system.

# Gilpin's State-Centric Realism: Background (Gilpin, 2001)



- Although globalization had become the defining feature of the international economy, this is still a world where national policies and domestic economies are the principal determinants of economic affairs
- The debate over economic development centers on the appropriate role for state and market in the development process
- The nation-state remains the dominant actor in both domestic and international economic affairs.

# Gilpin's State-Centric Realism: Background [Gilpin, 2001]



- Realism as a philosophical position & an analytic perspective, not necessarily a moral commitment to the nation-state
- Realism = Nationalism? Not identical, nationalists may be realists, but realists are not necessarily nationalists
- Although realists recognize the central role of the state, security, and power in international affairs, they do not necessarily approve the situation
  - The existence of anarchy does not mean that international politics is characterized by a constant and universal Hobbesian war of one against all
  - States obviously do cooperate with one another and do create institutions in many areas

# Gilpin's State-Centric Realism: Basic Assumptions (Gilpin, 2001)



- It assumes that the international system is anarchic. It views state in the absence of a higher authority as the principal actor in international affairs
- Although the state is the primary actor in international affairs, realism should acknowledge the importance of non state actors
- Despite the importance of these non state actors, the national governments still make the primary decisions regarding economic matters
- The interests and policies of states are determined by the governing political elite, the pressures of powerful groups within a national society
- The central concerns of the state are its national interests as defined in terms of military security and political independence, however, state-centric realism does not reject the importance of moral and value considerations in determining behavior
- In a highly integrated global economy, states continue to use their power and to implement policies to channel economic forces in ways favorable to their own national interests and the interests of their citizenry.