International Political Economy

1. The relationship between IR, Economics and IPE

International Relations refers to the study of linkages between different countries and the roles that sovereign states play in multinational corporations, international community, non-governmental organizations, international NGOs and inter-governmental organizations. International Relations formulate and analyses a given state’s foreign policy (IPSA, 250). International relations include economic exchanges between nations on different matters such as trade, security and health among others. Countries align themselves with the countries that can be of benefit to them, making maximum use of their comparative advantage to secure a formidable position in the global economy (Carlsnaes, 34).

Economics, on the other hand, is the study of the decisions that people make regarding the use of resources (Krugman & Wells, 48). Resources at the disposal of people or institutions include land, talent, equipment, time, buildings and other important tools. Economics looks into the knowledge that people have in the combination of different resources to come up with useful services and products. As a social science, studies in economics involve research into economic activity with the aim of understanding the different processes which give direction to production of services and goods, their distribution to the market and their use by the people, within the country and internationally (Brien & Williams, 44). The focus of
economics is on the interactions of different economic agents and their behaviour, as well as how different economies around the world operate.

International Political Economy relates to a developing field of study in social science that tries to gain an understanding of global and international problems by use of an array of theoretical perspectives and analytical tools cutting across different disciplines (Martin & Nissan, 154). The field of IPE has gained considerable prominence because of the continued disciplinary boundary breakdown between politics and economics as well as among other social sciences. IPE studies problems that have some form of a relationship between them (Mansbach & Taylor, 78). Traditionally, IPE concentrates on the analysis of the political economy attached to international trade, finance in the global economy, relations between countries with different economic strengths, hegemony as well as MNCs (Farrell & Newman, 620).

The relationship between these three disciplines converges where the need for an understanding into how the economy of different countries and relations between them are affected by different factors such as politics and business (Rochester, 135). The disciplines of IPE, economics and IR exploit the relationship that exists between economics and politics as posited by various political analysts and classical economists such as Karl Marx and Adam Smith (Frieden, 54). The close connection between economics and politics in international relations receives support from the happenings in the 18th and 19th century, when the creative dispensation of political power played a key role in the support of a framework applied in institutions that ended up creating a world economy (Krugman & Wells, 76).

A combination of the three disciplines is essential in the analysis of diverse processes and structures of economic integration and globalization (Sloman & Sutcliffe, 48). In addition to that, they facilitate a better understanding of interactions between international and domestic
economic and political phenomena that in some way serve to determine relations between countries (IPSA, 257). These three disciplines together overcome the separation between economics and politics between different markets and countries as well as the separation between international and domestic levels of analysis (Iles, 345).

How their relationship has transformed over time

The relationship between IR, Economics and IPE has changed drastically with time. The transformations in their relationship have been fuelled by different researches into events that occur in the international arena concerning economics, economic policy, politics and political alignment between states after the end of the Second World War (Tight, 31). These works of research have concentrated on the development of third world countries, multinational corporations, regional economic integration, institutions that participate in the governance of the international economy, structural adjustment and the relations formed by countries based on business (Princeton.edu, n.p.).

Of particular emphasis are the interests that determine the foreign policy of a nation. Nations have engaged in the creation of some level of interdependence between them in terms of economics over time. The increase in dependence among countries has led to a convergence in the economic interests of all countries. In the event that several countries share several common interests, then they engage in cooperation to push forward their agendas (Williams, 655). Economic interdependence cuts across different regions, such that a country in the current world can have close ties with another country that is thousands of miles away. It is imperative to note that domestic economic interests play a major role in influencing a country’s preferences in the relationships that it creates internationally (Dixit, 194).

The relationship between international relations, IPE and economics in contemporary society can also be argued based on capitalism. Today, most countries in the world are
capitalist states, which encourage its citizens and people from other countries to transact business within their borders with the aim of improving their social and economic well-being (Gilpin & Gilpin, 112). Capitalism in today’s world focuses on acquisition of ownership of the different available means of production as well as their control. The essential players are the ones that own productive capital that desire to compete with others in the global economy. These owners may be either countries or multinational organizations (Iles, 348).

Whatever the interests that these actors have shape the strategies and preferences of countries. States that apparently form the core of the world’s economy act with their efforts aimed at maximizing the opportunities that the capital owners have. Their actions are aimed towards supporting capitalism. Countries that are not at the centre of the global economy are comparatively dependent on the core countries on a number of needs (Frieden, 72).

Public opinion has also changed the nature of the relationship between the three disciplines. In history, the nationalism feeling among the population drove countries to engage in actions such as the expansion of its territories, a viable example being the struggle and partition of the continent of Africa in the 18th and 19th Centuries (Mansbach & Taylor, 82). Many countries, especially countries from the continent of Europe moved to Africa to acquire raw materials and market for the products that were produced in their countries, therefore the people had a feeling that the expansion of the territories of their countries would be of considerable benefit, especially to the development and growth of their domestic economies (Brecher & Harvey, 113). Today, public’s opinion has shifted from inquests of territorial expansion to pertinent issues such as collective security and law. People have developed an interest in the methods and institutions that other countries have developed, as well as the development of openly accountable and effective diplomacy structures in the promotion of peace (Gilpin & Gilpin, 121). Further, the public’s opinion has shifted focus to the appropriate institutional development and laws that provide peaceful environment for places of unrest and maintained the peaceful environment in areas that have relative peace. Generally, the public opinion requires the pooling of knowledge and practice of economics and international relations including IPE to create a favourable environment
for work and leisure activities (Phillips, 93).

1. Relevance of the debate on liberalism versus mercantilism to the current political economy

The debate on mercantilism and liberalism has been in place for the longest time now, with the increase in international interactions, especially in trade. Of particular importance is the school of thought that a specific country has regarding its role in the economy of the world. The debate between these two schools of thought is supported by the need for information regarding the actors that dominate the global economy and the nature of interests that they bear. Further, with the increase in desire to know the way the market interacts with the state within the borders. Further, the different interactions between the domestic markets and states with other markets and states have further formed a portion of the basis for the debate on liberalism and mercantilism.

Mercantilism borrows a lot from the realist notion. It finds its roots in feudalism as a method for the unification of states’ boundaries. Mercantilism gives a zero-sum idea, where for one state to gain from cooperation, another state has to lose. From the mercantilist point of view, it is imperative to have trade surplus whatever it costs. This brought about the policies of ‘beggar-thy-neighbour’. The mercantilist theory was mostly predominant in the period between the sixteenth century and the nineteenth century.
Liberalism, on the other hand, has the market economy as its basic tenet and is the dominant doctrine around the world. Proponents of the liberalist point of view believe that a market economy offers an invisible hand, where the players in the economy do not interfere with the forces of demand and supply. The liberalist point of view is that the prices of basic commodities and other aspects of the society would be determined through the natural law of demand for products and the supply of commodities. The liberal theory believes that any law made by the government would not allow the economy to perform optimally. Therefore, in this school of thought, there is limited governmental interference, or none whatsoever, in economic affairs.

An opinion held by a section of analysts is that mercantilism still exists in the contemporary world. Many countries protect their home products to the best of their ability. Many developing countries today protect their products by adopting protectionist policies. This plan is favourable to them because they have weak economies and their manufacturing industries are not as developed and established as the industries in the developed states.

Liberalism promotes the implementation of policies that would set the economy as free as possible from interference. The main objective of unrestricted trade has always been to encourage the efficiency of the economy. Because the costs of production and structures of production in different countries with strong economies were believed to be convergent, the common belief was that the expansion of trade would encourage specialization (Hobhouse, 312). States work towards the production of the products that these countries can produce with relative efficiency. Nations with absolute advantage enjoy lower production cost domestically for the products in which they trade. In the event that a country experiences higher costs in the production of goods compared to countries that trade with it, that country shall have to find out alternative products that it can produce with relative ease and at relatively lower costs to trade competitively in the international market (Wilson, 231).
Liberalism supports the economics of comparative advantage. Comparative advantage depends considerably on relative availabilities and proportions, in that every country has different resources available to it for production, and that the resources are found in different quantities in different countries. With specialization based on the resources available to a country, exchanges can expand in quantity, because the participants in international trade can get the highest returns for their products in an open global trade. The general welfare all people would increase (Gray, 175).

Mercantilism places emphasis on power and national wealth. The belief that holds in the mercantilist school of thought maintains that the wealth belonging to a country and its political power it enjoys over other nations internationally have an interrelationship. In this school of thought, the government is responsible for the distribution of resources to different sectors in the economy (Pettman, 83). Military power is a prime requirement in economies that have adopted the mercantilist perspective. These economies bear the belief that the trade that they engage in with other countries will always benefit them as long as they have surplus production. These economies end up preferring some economic activities to others (Simons, 158). The ones that are most preferred are those that have the potential to contribute to the surplus production towards which these economies work. It has always been easier to produce surplus in the manufacturing sector, therefore most countries will settle on products that they can manufacture in surplus (Hechscher, 77). In some way, that approach contributes to the development of comparative advantage, because these countries will exploit the resources that they have and choose the ones that fit their desire to produce in surplus. The products that they decide to produce are those that the countries have a comparative advantage in their production (Tulder, 195).

Liberalism separates economics from politics. This is the most preferred school of thought in the contemporary world. Most business establishments prefer the separation of business from politics because of the effects that politics today has on business ventures. With reference to developing countries, the nature of politics has more damaging effects to
business than the benefits (Mansfield, 152). Most developing countries have undergone a period of delays in economic growth because of poor political leadership that served to undermine efforts to improve economic investments due to fears of insecurity (Friedman, 125). Furthermore, developing countries’ governments are more interested with the taxation of businesses in international trade. This has the effect of scaring away potential investors to the country (Ynarski, 212).

According to the liberalist point of view, trade is always beneficial, whether there is surplus or not. Relative gains come about depending on the amount of investment that an enterprise puts into a particular project (Jacobs, 168). Liberalism does not limit the amount of investment that would lead to benefits, therefore leading to absolute gains. When the countries identify the products in whose production they have comparative advantage over other countries, they benefit from specializing in the production of such products because they have a wider market by indulging in international trade, therefore leading to profits (Badie, 132).

Liberalism pays less attention to gains by one state compared to the gains by another state. It accords more attention to absolute gain by a country (Neil, 42). While mercantilism advocated for shared interests in shared interests between countries engaging in international trade, liberalism advocates for a difference in such interests (Crane, 37). One of the reasons why the liberalist point of view has gained considerable favour in the contemporary society is because it allows a country to get products that it does not have the ability to produce favourably through international trade (Sorensen, 162). In the mercantilist perspective, states have to be self-sufficient in that they have to produce all the products that they need, even the most basic ones, because the focus is on the accumulation of wealth. This bears the risk that such a country may not be able to provide for every need of its people (Hughes, 133). Furthermore, the prices of basic commodities would be high because the products in which by producing the country does not have comparative advantage would be produced at high costs. Therefore, the
The reason why the debate between mercantilism and liberalism persists is that there are differences in the manner in which different countries view international trade (Mitchel, 182). With different economic and political situations determining how countries relate among themselves, many countries have developed different policies to both protect their interests and record significant growth from their trading activities in the international market (Pettman, 231). With widespread subscription to liberalism in most of the world’s economies, mercantilism has become increasingly dismissed as an erroneous and archaic set of ideas regarding economic policy. With more people sharing the liberal view that the private sector constantly seeks rent and the government as predatory, more people prefer the strict separation between private businesses and the state while viewing mercantilism as cronyism and state capitalism (Cheshire, 142).
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