The Social World as an Open System and Defining International Political Economy

The inherent openness of social systems means that there will always be strict limits on what we can know. Because in an open system there are a lot of unobservable variable and we cannot control whole world to experiment on it. In addition to it IPE researchs the interactions of humans which are an everchanging variable, thus we cannot describe IPE in just one definition; meaning there is no universal agreement on how IPE should be defined.

International applies only to relations between and among sovereign states. The term also implies a clear distinction between the national and the international—between what goes on inside states and what goes on outside states. It is clear that a great deal of, and likely most, economic activity that occurs in the world today is conducted—and sometimes controlled—by nonstate actors in ways that transcend national boundaries. As technological, financial, and political barriers have begun to fall away—as the world, according to a popular saying, has become “smaller” (this refers to the notion of time-space compression)—the costs associated with operating on a transnational basis have decreased rapidly.

Many scholars argue that TNCs (transnational corporations) are now able to directly challenge states’ authority to regulate their activity. In an era of globalized production, states have more difficulty regulating and taxing TNCs, since corporations can easily relocate some or all of their operations to countries with minimal regulations and taxes. Mobility and their productive capabilities give TNCs significant power in the world economy. The increasingly important role that TNCs (and other transnational actors) are playing in the world today can be attributed, in large part, to globalization. Globalization is a critical phenomenon that must be accounted for in any examination of international political economy. Globalization is a complex, multidimensional, and ongoing process.
Economic globalization is more than the simple extension of economic activities across borders, which has been going on for centuries. Instead, it refers to the functional integration of economic activities across borders (Dicken 1998). One important implication of functional integration is a de-nationalization of corporations. Globalization is not only about deepening economic integration and interconnectedness. Another key aspect of globalization is occurring in the realm of ideology, values, and beliefs. This means, in part, that people throughout the world are beginning to communicate—albeit as a product, to a significant extent, of advances in information technology (IT)—in terms of a common discourse centering around human and political rights (especially democracy), social, economic, and environmental justice, and global governance. the globalization of ideas, like the globalization of production and finance, is showing the potential to challenge the authority of states and other powerful global actors both within and outside national borders.

In the era of globalization, another relatively new set of actors—international institutions and organizations—are beginning to exercise more and more influence over more and more peoples and societies, but without any of the responsibility typically attached to policymaking entities in democratic societies. Barnett and Finnemore, in their book Rules for the World: International Organizations in World Politics (2004), assert that international organizations, such as the International Monetary Fund, engage in an ironic process of spreading liberal norms around the world without any democratic oversight. They refer to this as “undemocratic liberalism.” Others have leveled the same charges against another increasingly important international organization, the World Trade Organization (WTO). Kapoor (2004), for example, claims the WTO primarily acts as a vehicle for forcing liberal economic practices on countries and peoples around the world, but without a meaningful degree of legitimacy and democratic accountability. The key point to remember is simply this: there is nothing inherently democratizing in the process of globalization. “The structure of global political economy contains the ‘old’ international economy within a new framework which is based in the territory of states, but not necessarily ‘national’ in terms of purpose, organization, and benefit” (Tooze 1997, p. 221).

Conventional IPE textbooks tend to treat the market (economics) and state (politics) as separate entities, each operating according to its own, largely independent logic. While not entirely unjustified, the separation of the market and the state into mutually exclusive zones has always been problematic. One reason for this is clear: a market economy cannot exist, much less operate, without some kind of political order.
State only provides the legal-institutional framework for enforcing contracts and protecting private property.

International political economy is an area of study. As an area of study, it is concerned with, as Susan Strange (a prominent IPE scholar) puts it, “the social, political, and economic arrangements affecting the global systems of production, exchange and distribution, and the mix of values reflected therein” (emphasis added: 1994, p. 18). The definition we’ve chosen forces us to ask questions about what and who matters in the world economy, and why. It also pushes us to question many of the basic assumptions and values that underlie dominant and alternative perspectives of IPE. Are states still the dominant players in the world economy? To what extent have states lost control of the economic and political activity within their borders? What impact, if any, is the globalization of production, finance, and ideology likely to have on the world? How has globalization transformed relationships of power in the world? Where does the line between the domestic and the international, or between the economic and the political, lie? What is the relationship between democracy and capitalism? Are social justice, political equality, and human rights compatible with the “free” market?

**The Significance of Power**

In political science, the study of politics revolves around the issue of power. Power is also a central concept in IPE. The power is the ability of actor A to get actor B to do something he or she would not otherwise do (Dahl 1957). Most activity in the world political economy, instead, occurs as part of a process wherein power is exercised in a far less direct or interventional manner.

Why is a firm understanding of power essential to the study of IPE (or GPE)? Part of the reason for this is to the extent that markets play (or do not play) a dominant role in the economic life of a country or system of countries, they do so as a consequence of a political process. In this process, it is the distribution of power in society that determines, to a very large extent, the rules and values that govern economic and social relations. Power (or a particular structure of power), in this sense, is required to create and sustain the framework within which economic activity takes place. An efficient and productive market system, in particular, cannot exist where private property rights are not respected, where contracts cannot be enforced, or where domestic security is weak or nonexistent. Yet, protecting property rights, enforcing contracts, and providing security require a great deal of power, which—it is important to emphasize—must be exercised by a nonmarket actor like the state.

Most economists would accept the fact that power is required to create and sustain
the general framework within which economic activity takes place. Yet they might also argue that, for capitalist markets in particular, this power must be exercised in a neutral manner. Once the framework for market activity is created, in other words, all actors should have an equal chance to compete and flourish—if, that is, the highest level of efficiency is to be achieved. Thus, power becomes largely irrelevant in terms of understanding what goes on within well-functioning markets, since everyone is equally empowered. This view, however, ignores two critical issues. First, power is not just needed to create a general framework, but is also needed to sustain that framework. Second, power is never equally distributed. In a political/economic system, power is typically distributed in a skewed—often extremely skewed—manner.

When someone holds a gun to your head and demands you give him all your money, this is coercive power. Those who occupy central positions within the structure of international finance, on the other hand, have the power to write the rules (to some extent) or to define the framework itself—usually in ways that put them in an advantageous position. First, we need to recognize that once a framework or structure is created, all actors—from the most powerful to the weakest—become subject to the same system of constraints and opportunities (albeit on different terms). In the international financial system, this might mean that a “weak” currency can become a source of strength. Example: China: throughout the 1990s and into the first decade of the 2000s, Chinese authorities intentionally worked to keep their currency, the renminbi, weak relative to the dollar. This helped to spur China’s extraordinarily fast growth in exports (a weaker currency means that Chinese products have a competitive advantage in world trade, since they are cheaper than would otherwise be the case). Second, we need to understand that structural power is based on a network of (historically constituted) relationships that extend well beyond the interaction of two individual actors. For example, a teacher has power over a student because he or she can assign a grade that others—such as a parent, an honor society, a law or medical admissions committee, a potential employer—will use as a basis for determining the “quality” (and sometimes fate) of the student. Third, we must recognize that structural power is reciprocal. This means that, in any relationship of power, both parties have a degree of power no matter how wide the disparity may seem. Power is never absolute—that there are always structural limits to power. This suggests, in turn, that power relationships are rarely, if ever fixed. We can see this in the constantly shifting relationships between capital and the state, between capitalists and workers, and between rich and poor countries. Understanding the structural limits of power is important if we want to understand,
first, how and why things change in the international political economy, and second, what the possibilities for change are. Taken together, these three aspects of structural power can help us develop a deeper, more realistic understanding of international or global political economy. But these are not the only aspects of structural power with which we should be concerned. Susan Strange argues that structural power should be separated into four distinguishable but integrally related structures: security, production, finance, and knowledge.

The security structure, for instance, is simply the framework of power that provides protection to human beings from both natural and man-made threats. Those who provide this protection (or security) acquire a certain kind of power that lets them determine, and perhaps limit, the range of choices or options available to others (Strange 1994, p. 45).

The production structure includes all the arrangements that determine what is produced, by whom, by what methods, and on what terms. Those who control or dominate the production structure clearly occupy a position of power in any society, in part because the production structure is the primary means of creating value and wealth. The finance structure determines who has access to money, how, and on what terms. Money itself, however, is not critical; rather, it is the ability to control and create credit that really counts.

The knowledge structure—perhaps the most overlooked and underrated source of power—“determines what knowledge is discovered, how it is stored, and who communicates it by what means to whom and on what terms”. These four structures of power, according to Strange, are inextricably connected, and no one dimension is inherently or necessarily more important than any of the others.

**Chapter 2**

**Foundational Theories of IPE: Mercantilism, Liberalism, and Marxism**

For a long time, research in IPE has been broadly divided into three major schools, or perspectives, which we can classify as mercantilist, liberal, and Marxist. Mercantilism is the oldest of the three, dating back as early as the 16th century (perhaps even earlier). As a coherent politico-economic theory, however, many scholars point to Friedrich List (1789–1846) as the intellectual father of mercantilist thought. The National System of Political Economy (first published in 1841) is List’s bestknown work on the subject. List, it is important to note, mounted his defense of mercantilism as a response to classical economics and, more specifically, to the writings of Adam Smith (1723–1790), whose An Inquiry into the Nature and Causes of the Wealth of Nations (or more simply, Wealth of
Nations), published in 1776, quickly became one of the basic treatises of the liberal perspective. Marxism, then, is the youngest of the three. Karl Marx published his most famous work, Das Capital, in 1867 (later, his colleague Friedrich Engels used Marx’s notes to publish two additional volumes, in 1885 and 1894). Marx, too, wrote Das Capital partly as a critique of classical economics, but also as a larger examination of the social and historical forces that shape human society.

The original mercantilists believed that a country’s economic prosperity came from its stocks of precious metals, and that the best way to increase these stocks was to limit imports through tariffs and other protectionist policies, while maximizing exports, thus creating a trade surplus. Mercantilism enjoyed a strong revival in the latter part of the 20th century, due in no small measure to Japan’s rapid ascent to the status of economic superpower in the few decades following World War II. In fact, Japan’s rate of economic growth in the early postwar period was unprecedented: no country had ever achieved so much economic progress in so little time. Many scholars argue that the Japanese state—practicing an updated form of mercantilism or, most simply, neo-mercantilism—was primarily responsible for the country’s stunning economic success.

Neo-mercantilism highlights a number of distinctions from the older version. First, the emphasis on holding precious metals was replaced by holding foreign exchange reserves (usually in the form of U.S. dollars). Second, the newer form of mercantilism is much more strongly concerned with developing a country’s domestic manufacturing capacity; this led to a strong emphasis on infant industry protection. Third, in neo-mercantilism, especially as it developed in the 20th century, states were expected to play a much more sophisticated and interventionist role in the national economy. States also had to fulfill a disciplinary role in the domestic economy—to essentially take the place of the invisible hand of the market by ensuring adequate levels of competition. South Korea, Taiwan, Singapore, and most recently China, have closely followed Japan’s state-directed lead to achieve remarkable economic growth.

Marxism, too, is far from a dead tradition. Admittedly, this might sound strange given the collapse of the Soviet Union, and the apparent embrace of the market by most remaining socialist countries, including mainland China and Vietnam. Even North Korea has been forced to take tentative steps toward market reform. “Communism,” in this sense, has clearly failed, and this failure is supposed to have completely discredited Marxism and all its variants. (Put quotation marks around communism because, in classical Marxist theory, what existed in the former Soviet Union and other countries was not, and could not be, communism. However, while it is certainly true that central
planning in command economies has proven to be an utter disaster, it is not necessarily true that all or even most of the Marxist critique of capitalism has been negated by historical and contemporary realities. In fact, just the opposite is the case, at least according to advocates of Marxism. Global and national income inequality, for example, remains extreme: according to an analysis by Ortiz and Cummins (2011), in 2007, the richest 20 percent of the world’s population controlled 83 percent of the world’s income, while the poorest 20 percent controlled just 1.0 percent.

Many people—including scholars—assume that “communism” in the former Soviet Union was the same as Marxism. Yet, in classical Marxist thought, this is decidedly not the case. According to Marx, communism was a historical stage, but to reach this stage, it was necessary to first pass through capitalism. Why? Because communism required a firm economic or material foundation that only capitalism could provide. In this view, then, no society could skip the capitalist stage. Yet this is precisely what the Soviet Union (and China, Vietnam, Cuba, North Korea, etc.) tried to do. In so doing, however, they were doomed to failure. In this sense, we might say that Marx predicted the collapse of the Soviet Union before it was ever created, just as he predicted China’s turn toward capitalism.

The planet and its environment, Marxists will also point out, are being destroyed by rapacious corporations, and the capitalist system overall is becoming more and more unstable: the global financial crisis of 2008—a crisis that lasted four or five years—is certainly testament to this. This crisis, however, is simply another in a long line of increasingly more frequent financial and economic crises, including the Latin American debt crisis of the 1980s, the U.S. savings-and-loan crisis (1985), the U.S. stock market crash of 1987, Japan’s asset bubble collapse (1990), Black Wednesday in Europe (1992), the Mexican peso crisis (1994), the Asian financial crisis (1997), the Russian financial crisis (1998), the Argentine financial crisis (1999), and the dot-com crash (2000), among many others. Marxists tell us that all of these crises are cut from the same cloth. In particular, they all reflect the inherent instability and volatility of a global capitalist system that has become increasingly reliant on financial speculation for profitmaking.

To be sure, some actors will always make huge sums of money from the speculative bubbles that finance capitalism produces, and this can create the illusion that everything still works. “But”, as Wallerstein (2008) succinctly put it, “speculative bubbles always burst, sooner or later.” In fact, they not only burst with unnerving regularity, they also emerge time and time again. The reason is clear: the traditional avenue for generating large-scale corporate profits is choked off by excessive production,
investment, and competition; thus, financial speculation serves as one of the few roads, if not the only major road, still open to capital accumulation on a sufficient scale. Indeed, we can expect an acceleration of this trend, since the world’s productive capacity will continue to outpace its consumptive capacity.

Of the three perspectives, liberalism has had the strongest and most sustained following: it is the mainstream approach in economics, although not necessarily in IPE, and has been for quite some time. (An important note: the word liberalism here does not refer to, say, the progressive political orientation of the Democratic Party in the United States; instead, it refers to the classical principles of individual liberty and limited government.)

There is no single liberal economic theory. Instead, there are a variety of theoretical positions, some of which can differ quite significantly from others, even with regard to some fairly basic assumptions. That said, there are core features on which most liberal economic analysts agree. In this regard, a good place to start is with the market, and more specifically the free market. A market, in the most general sense, is any place where the sellers of a particular good or service can meet with the buyers of that good or service to conduct an exchange or transaction. A free market refers to exactly the same arrangement, but is conditioned on voluntary and unrestricted exchanges. This includes trade between and among countries—i.e., international trade. This leads to a key assumption in the liberal view: (voluntary) exchanges in free markets, whether between individuals or between countries, generally result in mutual benefit. Rothbard (2006) put it this way: “Trade, or exchange, is engaged in precisely because both parties benefit: if they did not expect to gain, they would not agree to the exchange”. Free market tends to operate in a largely self-regulating fashion. This means, in part, that while the free market can and does experience problems, the market process will automatically resolve these problems. Consider, on this point, a recurring phenomenon: throughout history, free markets have experienced regular ups and downs (i.e., periods of strong economic growth followed by periods of economic slowdown or recession). In the simplest terms, we can say that these so-called boom-and-bust cycles are caused by a temporary imbalance between supply and demand. Self-regulation keeps markets operating smoothly and at maximum efficiency over the long run.

How is it that all three of these contending perspectives continue to be relevant today? After all, one would think that after more than a century of debate, one perspective would have proven clearly superior to the others. But this has not happened.
# The Theories Compared

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