# INTERNATIONAL POLITICAL ECONOMY: PERSPECTIVE ON GLOBALIZATION

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International Political Economy (IPE) is the rapidly developing social science that attempts to understand international and global problems using an eclectic interdisciplinary array of analytical tools and theoretical perspectives. It is hard to imagine a world without International Political Economy because the mutual interaction of International Politics (or International Relations) and International Economics is today widely appreciated and the subject of much theoretical research and applied policy analysis. The political actions of nation-states clearly affect international trade and monetary flows, which in turn affect the environment in which nation-states make political choices and entrepreneurs make economic choices.

Political economy encompasses a variety of approaches to social behaviour. Macro political economy investigates associations between political activities and substantive performance of an economy. A micro political economy approach focuses on the processes that influence, motivate, and constrain the choices of individual political actors. In this micro approach to political economy we seek to examine the processes of choice that lead to government policies and to social, economic, and political outcomes. This approach seeks to investigate and construct the microfoundations of macro outcomes. A micro political economy approach can be used to examine individual decisions and social outcomes across a wide variety of settings. In this essay , it is applied to questions in the arena of international affairs, international cooperation, and globalization.

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The economic growth patterns of developing countries have varied widely since 1970. There have been some impressive success stories, as well as some depressing failures. Government policies, too, have varied widely among developing nations. According to World Bank economists Joseph Stiglitz and Lyn Squire, experience demonstrates that certain government policies have proven more conducive than others to successful growth and development.Especially important, they argue, are government credibility, an orientation toward the market, and the effective provision of essential public goods and services. While many questions remain, they believe that the essential components of developmental success are relatively well known. The world is "globalized." Among developed countries, international trade now accounts for nearly 38 percent of gross domestic product (GDP). For developing economies, imports plus exports comprise nearly 49 percent of all national output. Over the last two decades, global flows of foreign direct investment have more than doubled relative to GDP.

As journalist Thomas Friedman (2000, 9) has famously described it, globalization now allows "individuals, corporations, and nation-states to reach around the world farther,faster, deeper and cheaper than ever before."

The field of international political economy (IPE) pre-dates the current era of globalization, but not by much; perhaps more accurately, it was created by scholars trying to grasp the fundamentals of this nascent age. Nonetheless, this young field is rapidly maturing. From a range of early perspectives, a dominant approach, referred to as Open Economy Politics (OEP), now structures and guides research.Although political scientists are more apt to identify themselves as "international political economists," OEP bridges the disciplines of political science and economics and provides a vehicle for synthesizing the interesting work being done in both areas. Although there remain some significant differences between disciplines, and scholars are too often unaware of parallel developments in the other field, IPE is emerging as a true interdiscipline.

The economic factor in international relations, Globalisation is often thought to have emerged in the post-1945 era, and more specifically since the 1970s. The rise of multinational corporations, first in the United States and later in Europe and East Asia, the expansion of international trade and the emergence of globally integrated financial markets are all seen as interconnected trends that have begun to transform the global economy in the last 40 years. But in one form or another, these phenomena have existed for much longer, and the process of global economic integration can be traced back much further, not just to the late twentieth century but at least to the nineteenth century. Some scholars, such as Immanuel Wallerstein, argue that the current global capitalist system originated in the sixteenth century and has seen a continuous expansion ever since. This begs the question of just how new globalisation is. Trading links were among the first significant forms of the growing interconnectedness of national economies in the late medieval and early modern era. From the Hanseatic League to Venetian trading fleets and the Dutch and British East India Companies, corporations from maritime countries were at the forefront of establishing international trading routes that connected first countries within Europe and later European economies with those of Asia, Africa and the Americas. Globally operating companies have thus been in existence for at least 500 years, often working in close cooperation with state authorities. But these companies were largely trading firms, and it was only in the mid-nineteenth century that manufacturing firms began to establish facilities in different countries. By the time of the First World War, the European economies were already tied together by international capital flows and transnationally integrated production. Some scholars such as Kenneth Waltz have argued that the high level interdependence of the pre-1914 Gold Standard era has never been achieved again. Others, such as Michael Bordo et al. (1999), point to the more limited nature of globalisation before the twentieth century.But while debate on this question continues, it is fair to say that the late twentieth century witnessed a much wider and more comprehensive process of global economic integration, encompassing trade, foreign direct investment, short-term financial flows and technology exchange across borders. Not all indicators of global economic integration, such as trade openness, are at the same level as in the late nineteenth century,but this is due in part to the dramatic growth of the domestic economy in the twentieth century and particularly the rise of the services sector that is less likely to be internationalised. What matters more is the degree to which leading companies in the major industrialised economies are pursuing corporate strategies that are globally oriented. Innovation, product development, branding and marketing are now routinely carried out to serve global sales strategies.

It remains important, however, to reflect on the longer historical dimension of the current process of globalisation. The political problems and challenges that globalisation poses are not entirely new, and a rich history of international political economic thought exists that addresses the threats and opportunities that societies face from global economic integration .

## GLOBALISATION AND ITS DISCONTENTS

The globalisation of the world economy will most likely continue to tie societies and economies more closely together. Liberal economists and others see in this process of integration the hope for greater cooperation and prosperity for all nations involved. They welcome the opportunities that globalisation offers for extending markets, deepening the division of labour and raising productivity in production. Even if globalisation brings with it economic dislocation in the short run, it will contribute to alleviating poverty in the longer run. However, all observers do not share this optimistic view of globalisation. The late 1990s saw the emergence of a transnational movement of protest against globalisation, which gave expression to widespread fears about the ever-deeper integration of the world economy. For the anti-globalisation movement and other critical observers, globalisation holds the threat of economic marginalisation and global inequality, cultural homogenisation and the erosion of national sovereignty. Globalisation is seen as a process that benefits the rich rather than the poor, multinational corporations rather than local communities, and the West and the United States in particular rather than the developing world. Furthermore, the global financial crisis and economic recession that started in 2008 have highlighted the profound dangers of ever greater global integration of financial markets amidst weak regulatory oversight of the banking sector by governments. The growing unease about the consequences of globalisation has manifested itself in a number of high-profile protests against international conferences and organisations. In 1999, protesters fought street battles with the police of Seattle (USA) outside the meeting of the Ministerial Conference of the World Trade Organization (WTO). Other high-profile meetings of the International Monetary Fund (IMF), the World Bank and G8 have since provoked similar public demonstrations. These protests are but the most visible manifestation of an anti-globalisation sentiment that has spread throughout the world. It is worth considering the main objections that are being raised against the process of globalisation:

**Distribution of wealth and inequality**: One of the most contested questions in the debate on globalisation is whether it will lead to a more equal or unequal distribution of wealth worldwide. Proponents of greater economic integration argue that it will stimulate economic growth in all countries that are opening up their economies, and particularly in those that are starting out from a lower level of prosperity. The recent economic success of economic liberalisation in countries such as China and India, which has seen annual growth rates of between eight and 10 per cent for more than a decade, is seen as an example of what globalisation and economic reform can achieve. Critics of globalisation point to the serious economic dislocations that countries experience when they open their economies to intenational trade and capital flows. In their view, globalisation allows for a greater concentration of economic wealth and power in the hands of global corporations and the most industrialised economies of the North. Cases of economic growth in developing countries in fact result in greater inequality within those countries, leaving many local communities exposed to the destructive forces of market competition.

To some extent, the different perspectives of proponents and critics of globalisation reflect their different time horizons. The former point to the long-term growth prospects for all sections of society, while the latter focus on the short-term dislocations that economic change brings with it. But beyond this, real differences in opinion persist with regard to the question of what opportunities and threats the spread of global capitalism produces for workers, local communities and developing countries.

**Loss of national autonomy**: A central argument of critics of globalisation is the eroding effect global integration has on national autonomy, that is the ability of states to set and pursue independent policy objectives. No country in the world is, of course, entirely autonomous. But globalisation is seen to enmesh countries in a growing web of transnational links that leaves them increasingly exposed to global market forces. Critics argue that the resulting power shift from states to global firms puts pressure on governments to provide an attractive investment climate for multinationals. Governments are locked into a ‘race to the bottom’ in which they compete with each other for foreign investment by deregulating the economy and dismantling welfare states. Proponents of globalisation counter this argument by highlighting the contrary empirical evidence. The role of the state in industrialised economies has changed little over the last 40 years. Despite sustained periods of deregulation in the 1980s and 1990s, state spending as a proportion of GDP has actually increased during that period. The recent financial crisis has forced governments to reduce public spending again in an effort to cut fiscal deficits but spending levels will likely remain high, at levels last seen shortly before the financial crisis. Furthermore, there has been little convergence between the different models of capitalism in the industrialised world, with central European and Scandinavian countries continuing to rely on a significantly larger role for the state in the economy than Anglo- Saxon countries.

**Environmental costs**: Trade liberalisation and global market integration have been linked to environmental degradation around the world. Ecologists argue that international trade promotes an energy-intensive exchange of goods between distant communities that contributes to global warming through higher fossil fuel consumption, and erodes local and regional forms of sustainable production and exchange. In that trade fuels higher economic growth and the spread of unsustainable patterns of production, it acts as a major force behind the exploitation of natural resources. Advocates of free trade respond by pointing to the efficiency-raising effects of international trade that help reduce resource inputs in production. By extending competition and forcing inefficient companies out of business, trade can be a force for higher resource-efficiency in the economy. An important condition for reducing the environmental side-effects of trade liberalisation is,however, that all costs of moving goods around the world are fully integrated into their prices. An important step in that direction would be to raise energy prices in transport, be it by air, sea or land, to reflect the so-called 'environmental externalities' especially of fossil fuels (e.g.their contribution to global warming).As this brief review of concerns over globalisation has shown, global economic integration poses serious dilemmas for states and societies around the world. Globalisation has changed, and will continue to change,the nature of international relations. But it is unlikely to lead to the demise of the nation state. States continue to play a key role in determining how much societies benefit from globalisation and how well they are protected from its negative consequences. The interaction between states and global markets thus remains a key focus in the study of international political economy.

The term "globalization" began appearing in the IPE lexicon in the mid-1980s to describe the growing **interdependence** (interconnections) among people and states all over the world that resulted from the digital revolution and the spread of Western (U.S.) culture. Globalization also accounted for more trade and financial exchanges with other countries relative to a nation's gross domestic product (GDP). Beginning in the 1990s, the world seemed to be going through a major transformation that involved intense connections between states and their societies. Many IPE analysts suggested that a shift had occurred from a predominately Cold War, military-oriented world order (1947–1990), where states were preoccupied with territorial security and war, to something more akin to a pluralistic world order in which economic issues dominated the global agenda. Many academics, journalists, and public officials labelled this nearly twenty-five-year period of history since the collapse of the Berlin Wall as the "era of globalization."The roots of globalization can be found in the early 1980s when U.S. President Ronald Reagan and British Prime Minister Margaret Thatcher popularized the ideas and policies associated with economic liberalism and free trade. Many of the newly industrializing states in East and Southeast Asia grew quickly and steadily, turning their trade policies outward by adopting export-led growth strategies and integrating themselves into the new "global economy." During this period, the United States,Great Britain, and other industrialized nations engaged in a campaign to promote globalization with the explicit and implicit promise that, together with capitalism,it would increase economic growth while laying the groundwork for democracy the world over.In the 1990s and much of the 2000s, many government officials, business people and academics in the industrialized nations remained enthusiastic about the potential economic benefits from interconnecting people in new, different and profound ways. Columnist Thomas Friedman, for one, made globalization out to have an appeal that could not be denied. Globalization is usually characterized as

■ an *economic process* that reflects dense interconnections based on new technologies and the mobility of trade and capital;

■ the *integration* of national markets into a single global market;

■ a *political process* that weakens state authority and replaces it with the power of deregulated markets;

■ a *cultural process* that reflects a growing network of complex cultural interconnections and interdependencies in modern society.

Some analysts further claim that globalization

■ is an *inevitable* occurrence that has produced a new form of
capitalism—hypercapitalism;

■ is a process for which *nobody is in charge;*

■ *benefits* everyone, especially economically;

Globalization connects people by reaching around the world faster, deeper,and more cheaply through an array of new digital technologies that include the Internet, fiber optics, and smart phones. Globalization emphasizes increased production and the free flow of huge amounts of capital in search of investment opportunities and new markets around the world. *Speed* and the *death of distance* are the necessary major features of twenty-first-century communications, commerce, travel, and innovation. Along with economic growth and personal wealth comes the demand for Western (read U.S.) mass consumer products.For Friedman and free-market state officials, globalization manifested the power of unregulated and integrated markets to trump politics and greatly benefit society. It became synonymous with production efficiency, the free flow of currency (capital mobility), free trade, and individual empowerment. In his popular book *The Lexus and the Olive Tree,* Friedman asserted that globalization often required a "golden straightjacket"—a set of political restrictions and policies that must be implemented if states want to realize globalization's benefits. The payoff would be a "triumph of the market" that produced economic prosperity and democracy everywhere in the world. Putting the Pieces Together: Globalization, the Financial Crisis, and State–Market–Societal Relations Friedman has gone on to argue that an intensely competitive new phase of capitalism—hyperglobalization—drives individuals, states, and TNCs to continually produce new and better products. In his book *The World Is Flat,* he argues that new technological developments are *in the process of* leveling the relationship of individuals to their states and to one another.[13] Leveling generates new opportunities for individuals to compete with people in their own society and with those in other countries. In short, despite a few shortcomings, globalization is here to stay and should be embraced.Not surprisingly, globalization shaped the strategies of developing countries and has remained quite popular with elites and many citizens in the developed nations. It led to increased emphasis on a set of common rules and policies that all countries were expected to follow—implemented and overseen by international institutions such as the International Monetary Fund, the World Trade Organization,and many United Nations agencies. It was supposed to help create

more peaceful relations between states that traded with one another, especially if U.S. hegemony (leadership) promoted it as an attractive option for the world's poor and downtrodden. Globalization was also expected to increase flows of people across borders, which might eventually lead to a better understanding between different groups. As globalization grew in popularity, so did traditional and national resistance (what political scientist Benjamin Barber called *jihad*) to many of its effects.

In the 1990s, the antiglobalization movement gained momentum.Many NGOs and other public-interest groups pitched their causes in newspaper articles and on their websites. Much of their focus was on negative consequences of globalization, such as sweatshop conditions in poor countries, damage to the environment, and maldistribution of income.[15] Many of these groups formed coalitions with labor, environmental, and peace activists and held massive demonstrations that often turned violent in cities such as Seattle, Washington, DC, Salzburg,Genoa, and Prague. Protesters denounced WTO, IMF, and World Bank policies that supposedly reflected an ideological obsession with the spread of global capitalism and minimization of controls on transnational corporations. Even the 1989 pro-democracy protests in Beijing's Tiananmen Square and the 2012 Arab uprising can in some ways be interpreted as reactions to the imposition of globalization oriented policies by authoritarian regimes. Issues surrounding globalization have decisively affected local, regional, and even national elections. Others even argue that antiglobalization was a motive behind the 9/11 terrorist attacks on the United States.[16]Critics saw globalization as merely a shibboleth of free-market champions—a wildcat version of capitalism that promised higher standards of living but increased the misery or marginalization of many people. Political scientists Leo Panitch and Sam Gindin have portrayed globalization (driven in part by the U.S. Treasury and the Federal Reserve) as a process of spreading U.S. economic practices and institutions to foreign countries: "It was the immense strength of US capitalism which made globalization possible, and what continued to make the American state distinctive was its vital role in management and superintending capitalism on a worldwide plane." When such a process allows markets to trump politics, predictably the outcome often is devastating for society.It had become a slave to the market, which operates like clockwork, driven by economic and Social Darwinism, leading to excessive competition and consumption and the necessity of people to adapt to market conditions, at the risk of becoming social misfits and slowing the global economy.Friedman acknowledged that globalization alone would not automatically achieve success for everyone. In fact, he suggested that if it increased the rich–poor gap or left too many behind, it would likely generate opposition. Moreover, many scholars—and even Thomas Friedman himself—became concerned about the extent to which globalization was having a homogenizing effect on cultures around the world. Was it desirable to encourage the spread of U.S. business practices and consumption of U.S. products and symbols such as Big Macs, iMacs, and Mickey Mouse? Was globalization just a process of spreading the ideals and cultural patterns of the U.S. empire?

By the turn of the twenty-first century, it had become clear that most developing nations were not growing out of poverty as expected. A few newly industrializing countries (NICs)—China, Singapore, Taiwan, South Korea, Malaysia, and Thailand—did experience tremendous national and per-capita growth. And yet some of these newly emerging economies in Asia and other parts of the world experienced financial crises in the late 1990s that called into question whether fast growth was sustainable. Even though more unfettered (unchained) markets tended to help the well off in these societies, the gap between rich and poor expanded. In a tacit admission that globalization was not delivering on its promises, the United Nations in 2000 established the Millennium Development Goals (MDGs) directed at increasing foreign aid for poorer nations, halving global hunger, reducing debt, and fighting diseases like AIDS. Contrary to predictions that globalization would lessen armed conflicts around the world, the former Yugoslavia plunged into civil wars throughout the 1990s, Rwanda suffered a genocide in 1994, and the Democratic Republic of the Congo experienced a terrible civil war between 1998 and 2003 in which more than two million people died. Also left behind by globalization were a number of "failed states" such as Sudan, Somalia, and Afghanistan, where civil wars destroyed societies. Then came 9/11 and the wars on terrorism and Iraq, which intensified tensions between the Western industrialized nations and many Islamic countries, even though the two groups of countries were more culturally and economically interconnected than ever before. Many scholars of International political economy became concerned that pro-globalization policies were responsible for many of the global environmental problems that we face today. The emphasis on profitable, short-term economic choices has led to ecological catastrophes that already may not be reversible. Many would like to reform capitalism and redesign globalization so that people curtail the excessive use of the earth's resources. We can expect major problems in adjusting to a sustainable level of resource use in the industrialized nations—at the same time that China, India, and other developing nations make increasing demands on the raw materials of "Spaceship Earth." Finally, the current global financial crisis and the distress of Europe have generated still more (intense) criticism of globalization and the economic liberal values and institutions that prop it up.

Globalization, a process that seems to defy easy definition, breaks down barriers whether these barriers separate nation-states, cultures, labour markets, or national economies. Globalization breaks down these barriers the same way that International Political Economy has seemingly beat down the barriers between and among various academic disciplines. In so doing, IPE has perhaps carved out for itself an unexpected role: the academic discipline that studies the results of the creative destruction of both modern society and the modern disciplinary structure.

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