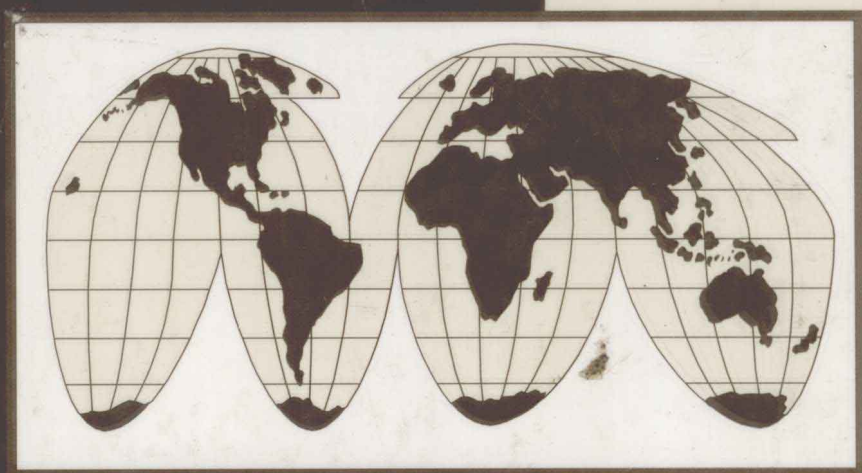


*I*ntroduction to
*I*nternational
*P*olitical
*E*conomy



DAVID N. BALAAM
MICHAEL VESETH

Introduction to International Political Economy

David N. Balaam

Department of Politics and Government

Michael Veseth

*Department of Economics
and Director of the Political Economy Program*

University of Puget Sound

IN COLLABORATION WITH FACULTY
OF THE POLITICAL ECONOMY PROGRAM
UNIVERSITY OF PUGET SOUND



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Preface

... the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.

*John Maynard Keynes,
The General Theory of Employment, Interest, and Money
(New York: Harcourt Brace Jovanovich, 1964), p. 383*

The ideas, questions, issues, and problems that we study in International Political Economy (IPE) are increasingly important. It is hard to make sense of a newspaper, a business investment, or a government policy without an understanding of the theories, institutions, and relationships found in IPE. It is difficult, in other words, to understand our everyday lives without some understanding of IPE, so deeply are we now touched by international relations and global events.

We believe that IPE is so important that all college students need to understand it in a fundamental way. Our conviction is that it is possible to present this material in simple ways that retain the complexity of the global issues and intellectual problems we address, but without making the discussion fit only for graduate students. Our aim is to provide educational materials that will allow “beginners” (college freshmen and sophomores) to go from zero-to-sixty in IPE in a single semester. Our hope is that these students will become excited about IPE and become life-long-learners—and become better citizens and more knowledgeable individuals in the process.

The book begins with five chapters designed to set out some basic tools for studying IPE. Chapter 1 introduces the fundamental idea of IPE and then tries to motivate the complexity inherent in IPE, giving a peek at the final goal. We will begin with relatively simple tools and ideas, then add layers and detail to make IPE real. Chapters 2, 3, and 4 then explore three ways of looking at IPE that have been powerful forces in history and remain influential in today’s world: Mercantilism, Liberalism, and Marxism or Structuralism. Chapter 5 introduces a method, Rational Choice Analysis, that is particularly useful in understanding some IPE questions and events.

The second section of the text examines the web of relationships or structures that tie nations and their citizens together. As a student sitting at your desk, you are

linked to people and places around the world in a number of ways, which you need to understand if you are to make good personal, business, and social choices. Chapter 6 looks at production and international trade. Chapter 7 looks at the monetary linkages that bind us together. Chapters 8, 9, and 10 examine, respectively, the debt connections, the security structure, and the ties created by knowledge and technology.

At the end of the first ten chapters, then, you should be able to imagine yourself as part of the IPE and how you are linked to states and markets around the globe. You should have a fundamental understanding of how the linkages are made and an appreciation of the theories and perspectives that interpret these structures and guide our understanding of them.

The second half of the book looks at specific topics and problems in IPE that are essential to a sound understanding of the world today. Chapters 11 through 14 look at issues and events that are usually associated with the industrial nations of the "North." We examine the European Union, the controversy over NAFTA, the IPE of Japan, and the problems of the formerly Communist countries making the transition to another form of political economy.

Problems and issues generally associated with the less developed countries of the "South" are discussed in chapters 15 to 17. These chapters look at the dilemma of LDCs and NICs, the nature of the multinational corporation, and the IPE of oil and energy.

Finally, the last three chapters examine global problems. The global environment and the food crisis are discussed. The very last chapter looks at the global problems of the United States. This chapter should help our U.S. readers to place themselves within the IPE and help them to make some sense of where the United States is going in the global IPE and how it will affect them.

In addition to this text, we worked with Prentice-Hall to produce three other valuable educational tools: (1) an Introductory IPE Reader, with short edited readings keyed to this text, which adds depth and breadth to the material here; (2) The Prentice-Hall–New York Times IPE Supplement, which presents recent articles and opinion pieces from the pages of the *New York Times*, keyed to chapters in this text; and (3) The Prentice Hall–ABC News IPE video library, which contains "ABC News," "Nightline," and other video clips keyed to the topics in this text. We hope that most readers of this text will also have access to these other resources, although the textbook is in fact self-contained and can be read easily without the use of these other references.

At the University of Puget Sound, where we teach, every student takes a course in IPE, or something similar, in their sophomore year. We have written this text to help our students and to help ourselves serve their needs. We hope you find it a valuable educational resource.

This textbook is truly a cooperative effort. We have benefited from the contributions and support of many persons, students, colleagues, family, and friends. We are especially grateful, to our colleagues in the Political Economy Program who have contributed directly to this work by writing chapters in their fields of expertise.

We would like to stress, however, that all these chapters benefited from the collaborative efforts of everyone involved in this project, giving the text a coherent voice

and unified approach. We want to thank you all for your hard work, help, constructive criticism, and continuing support.

We also want to acknowledge the debt we owe to David Calleo and Susan Strange, who helped get the IPE program at the University of Puget Sound off to a good start, and to the Hewlett Foundation grant that made their visits possible. Thanks go, as well, to the reviewers, who read the entire book and provided constructive criticism, and to our friends and colleagues who did the same: Michael Carey, Dan Pearson, Richard Hill, and Stephen Newlin. We also want to thank our students, who struggled through the early drafts of these chapters in good spirits and provided many useful comments.

Finally, we owe debts we can never repay to our families and to our mentors. We love you.

David Balaam and Michael Veseth

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Part I

Perspectives on International Political Economy

What is international political economy? The first chapter of this book answers this logical question, stressing the fundamental nature of IPE and its multidimensional character. The chapters that follow in part I will broaden and deepen this basic understanding. Chapters 2 through 4 are the core chapters of part I, presenting ideas that are used everywhere in the text. These chapters explore the history of IPE through a discussion of the three main IPE viewpoints or perspectives—namely, mercantilism, liberalism, and structuralism. This discussion will provide students with a basic vocabulary and some theoretical tools that are useful in understanding any IPE issue. These chapters will also help students see more clearly the roots of IPE in the past and its relevance to the contemporary world. The first part of the text concludes with chapter 5, which presents the rational-choice view of IPE, a particular method of analysis that is often employed by political economists.

1

What Is International Political Economy?

OVERVIEW

What is international political economy? Chapter 1 answers this question both in general, using social science concepts, and in particular, through concrete examples that illustrate important ideas.

In simple terms, we define IPE as the study of a fundamental tension between and dynamic interaction of two spheres of life, which we can variously call “society and individuals,” “politics and economics,” or “states and markets.” Any way you say it, political economy is about the lines that both connect and divide national interest from individual self-interest.

The main case study presented in this chapter looks at the tension between the United States and China regarding two sets of issues—international trade and human rights—that are brought together in the international political economy. The purpose of this case study is not so much to inform the reader about this specific issue as to provide a concrete example for use in thinking generally about IPE.

U.S. IS TO MAINTAIN TRADE PRIVILEGES FOR CHINA'S GOODS

WASHINGTON, May 26—President Clinton's decision to renew China's trade benefits was the culmination of a titanic clash between America's global economic interests and its self-image as the world's leading advocate of human rights. In the end, economic interests won the day.

The New York Times, Friday, 27 May 1994¹

International political economy dominated the front page of *The New York Times* and most other newspapers in the United States on May 27, 1994. The issue was complex but clearly important. President Bill Clinton had to choose between two conflicting national interests. The economic interests of both China and the United States would be best served by granting Chinese goods favorable entry into the U.S. market, a condition termed **most favored nation** (MFN) status (see the case study, page 10). China, however, had a record of violating human rights as they are defined by Western culture. It was long-standing U.S. policy to deny MFN status to nations that violate human rights standards.

President Clinton's dilemma was an example of the tension between economics and politics, two spheres of human life that often intersect. In making his choice, President Clinton had to take into account the many types of interactions between China and the U.S., and the impacts they have on other nations. He had, as well, to weigh historical factors and consider deep cultural differences. In the end, President Clinton chose to extend MFN trade privileges to China, satisfying some economic and political interests, despite China's lack of progress on human rights.

Sometimes international political economy makes the front page, as it did here, but it is *always* in the news. We live in a rapidly changing world, where everyday concerns are increasingly global. As interdependence grows, economic issues are increasingly political in their nature and impact, and political issues are increasingly economic.

It is necessary to understand something about IPE if one is to comprehend the nature of many of today's events, their impact on us as nations, businesses, and individuals, and their consequences for the future. The IPE of MFN trade status for China, for example, will affect profoundly the lives of millions of Americans and many more millions in China and other countries. Such important information can no longer be ignored by intelligent people seeking to understand broadly the world they live in and their place in it.

What is IPE? Why should it be studied? How? This book is an introduction to IPE, written to help you understand the issues, forces, and problems that characterize today's interdependent world and to help you appreciate where you fit into the picture. This chapter gets you started by outlining the basics of IPE, using the China MFN decision as a case study to illustrate IPE's power and importance.

One way to understand the basics of IPE is to pick apart its name. It is first, therefore, *international*, meaning it deals with issues that cross national borders and with relations between and among nation-states.

IPE is secondly *political* in that it involves the use of state power to make decisions about who gets what, when, and how in a society. Politics is a process of col-

lective choice, drawing in competing interests and values of different actors, including individuals, groups, businesses, and political parties. The political process is complex and multilayered, involving nation-states, bilateral relations among nation-states, and many international organizations, regional alliances, and global agreements.

Lastly, IPE is about the *economy* or economics, which means that it deals with how scarce resources are allocated to different uses and distributed among individuals through the decentralized market process. Economic analysis and political analysis often look at the same questions, but economic analysis focuses less on issues of power and national interest and more on issues of income and wealth and individual interest. Political economy, therefore, combines these two ways of looking at the world in order to grasp more fully society's fundamental nature.

The issue of China's MFN is thus typically IPE in its nature, since this issue deals with U.S. government policies that affect both commerce and social values in the United States and China. IPE is a social science based on the set of problems, issues, and events where I, P, and E intersect, connect, or overlap, creating a rich pattern of interactions. In today's world, this is a growing and increasingly fascinating set of questions to study.

FIRST PRINCIPLES: STATES AND MARKETS

The world is a complicated place, characterized at all levels by elements of interdependence. We depend on one another in many ways and at many levels. Human existence is, therefore, filled with elements of tension, boundaries where differing and sometimes conflicting interests, points of view, or value systems come into contact with one another. It is the purpose of the humanities and the social sciences to im-

WHY STUDY INTERNATIONAL POLITICAL ECONOMY?

Why should a person study international political economy? We give three brief answers: because it is interesting, because it is important, and because it is useful.

IPE is interesting. To paraphrase Samuel Johnson, a person who is bored with IPE is bored with life! IPE is all about life and the many actions and interactions that connect human beings around the globe. The study of IPE is the opportunity to study some of the most interesting issues and questions in the world.

IPE is important. IPE makes the front pages every day because IPE events affect us all as citizens of the world, residents of particular nation-states, and daily participants in systems of markets that are increasingly global in nature. IPE events affect us all and it is important that we understand them and see how we connect to and can influence global affairs.

Finally, *IPE is useful.* Public and private employers increasingly seek out individuals who can think broadly and critically, who can understand complex and dynamic systems, and who can appreciate the impact of social conditions and alternative values. Employers, in short, seek out those who can understand the international and global context of human activity today. IPE is the social science that most directly addresses these needs.

prove our understanding of the human condition by analyzing the causes of these tensions and their consequences—how they are resolved. Political economy contributes to this work by focusing on particular tensions that have traditionally been of interest to social scientists.

Since it is useful, especially at the start, to use a simple vocabulary to discuss new ideas, let us agree to think about political economy as *the field of study that analyzes the problems and questions arising from the parallel existence and dynamic interaction of “state” and “market” in the modern world.*²

The interactions that define political economy can be described in many ways. To a certain extent, political economists focus on the fundamental conflict between the interests of the *individual* and the broader interests of the *society* in which that individual exists. To put this another way, political economy is the study of the tension between the **market**, where individuals engage in self-interested activities, and the **state**, where those same individuals undertake collective action that is—or should be—in the national interest or in the interest of a more broadly defined community or “society.” In short, political economy looks at the fundamental tension between *economics* and *politics*.

The state is the realm of collective action and decision. By *state* we usually mean political institutions of the modern nation-state, a geographic region with a relatively coherent system of government that extends over that region. The nation-state is a legal entity that has a well-defined territory and population, with a government capable of exercising sovereignty. France, for example, means the territory of France, the people of France, and the government of France and its policies, depending on context.³ We should, however, also consider the state more broadly, as the domain of collective or political behavior that takes place at many levels. The European Union (EU), for example, is not a nation-state; it is an organization of nation-states. Yet to the extent the EU makes choices or policies that affect the entire group of nations and their citizens, it demonstrates the properties of a state.

The market is the realm of individual actions and decisions. By *market* we usually mean the economic institutions of modern capitalism. The market is the sphere of human action dominated by individual self-interest and conditioned by the forces of competition. Although a market is sometimes a geographical location (such as the New York Stock Exchange or the Pike Place Market in Seattle), it is more often a *force*. That is, the force of the market motivates and conditions individual human behavior. Individuals are driven by the motive of self-interest, for example, to produce and supply scarce goods and services or to seek out bargain products or high-wage jobs. They are driven by the *market force of competition* to make products better, or cheaper, or more attractive.

Society contains both state and market elements, and states and markets therefore generally reflect the history, culture, and values of their social systems. We define political economy this way, knowing that states and markets are complicated systems of social organization, which exist within a broader society (see figure 1–1).

The parallel existence of states (politics) and markets (economics) creates a fundamental tension that characterizes political economy. States and markets do not always conflict, but they do overlap to such a degree that their fundamental